

Appendix A781-A840

FERRE, BAKER WATTS, INCORPORATED

LEISURE DURABLES COMPARABLES GROUP

Company Name	BRUNSWICK	CALLAWAY	CANNONDALE	GT BICYCLES	HARLEY DAVIDSON	K2	STEINWAY INSTRUMENTS	POLARIS INDUSTRIES	BRASS EAGLE	Average
Ticker	BC	ELY	BIKE	GTBX	HDI	KTO	LYB	PII	XTRM	
8/10/98 Price	17.125	11.930	11.750	7.375	37.436	17.813	28.750	34.000	12.375	
Earnings Per Share Data										
1997										
1998E	2.23	1.65	(0.51)	0.30	1.13	1.41	1.44	2.44	0.64	
1999E	2.45	0.74	1.03	0.54	1.35	1.44	1.73	2.86	0.95	
1998E		0.98	1.03	0.72	1.63	1.53	2.00	2.08	1.28	
EPS Growth Rates										
1998E	-	-80%	-302%	42%	19%	2%	20%	NM	48%	NM
1999E	10%	32%	0%	33%	21%	13%	18%	11%	35%	20%
Price to:										
Sales										
1997	2.9	11.5	2.8	3.5	0.8	0.6	0.5	0.3	0.2	2.5
Cash Flow	-	14.4	NM	NM	11.8	7.7	12.2	5.0	NM	10.3
1997 EPS	-	8.6	NM	19.4	33.1	12.6	18.9	13.9	18.3	17.0
1998E EPS	7.7	16.1	11.4	13.7	27.7	12.4	15.6	12.8	13.0	16.3
1999E EPS	7.0	12.2	11.4	10.2	23.0	10.9	13.4	11.5	9.7	12.8
Capitalization										
Shares Outstanding (MM)	99,436	74,763	8,108	8,829	152,000	18,541	9,373	26,283	7,241	
Market Capitalization	1,702,842	882,491	95,288	72,489	5,880,801	294,645	230,728	893,622	89,607	
LT Debt to Total Capital	0%	0%	29%	80%	0%	59%	5%	NM%	27%	

Source: Baseline, First Call, and FWW estimates. ADAMS GOLF, INC.

FERNIS, BAKER WATTS, INCORPORATED

APPENDIX A

Top 20 Brands of Clubs
U.S. Sales (\$ Millions)

Company	1997	1996	Rank	1995	Rank	1993	Rank	1991	Rank
1 Callaway	518.1	448.0	(1)	365.0	(1)	187.0	(1)	50.0	(9)
2 Taylor Made	250.0	242.0	(2)	143.0	(3)	75.0	(4)	86.0	(4)
3 Cobra (Incl. Bobby Grace)	160.0	143.0	(3)	148.0	(2)	52.5	(8)	28.5	(13)
4 Northwestern/Pro Select	92.0	45.0	9	70.0	(6)	87.0	(3)	115.0	(1)
5 Ping	87.0	88.0	4	88.0	(4)	84.5	(2)	87.0	(2)
6 Titleist	75.0	68.0	6	50.0*	(6)	42.5	(9)	18.0	(16)
7 Top-Flite	70.0	60.0	5	50.0*	(7)	42.5	(8)	45.0	(9)
8 Knight	51.0	36.0	12	29.0	(14)	17.0	(18)	-	-
9 Wilson	50.0	48.4	8	70.0	(5)	75.0	(5)	59.0	(5)
10 Mizuno	50.0	40.9	10	37.0	(10)	37.5	(10)	47.5	(8)
11 Odyssey	43.0	27.0	13	11.0	(22)	2.0	-	-	-
12 Adams	37.0	5.0	34	3.0	-	-	-	-	-
13 Dunlop	35.0	25.0	16	30.5	(13)	-	-	-	-
14 Tommy Armour	33.0	53.0	7	46.0	(11)	47.5	(7)	48.0	(7)
15 Nicklaus	26.0	20.0	17	17.0	(16)	8.0	(28)	-	-
16 Goldwin	26.0	18.0	19	5.5	(32)	-	-	-	-
17 Lynx	23.5	39.0	11	40.0	(9)	12.0	(23)	13.0	(19)
18 Cleveland	23.0	26.0	14	32.5	(12)	22.5	(14)	87.0	(3)
19 Yonex	15.0	16.0	20	18.0	(17)	24.5	(13)	32.0	(11)
20 Arnold Palmer	14.0	18.0	18	8.0	(24)	7.0	-	5.0	-
Industry Total	\$1,867	\$1,800		\$1,300		\$1,000		\$1,000	

(\$ million)

* Includes Spalding.

Source: Golf Pro and company reports.

ADAMS GOLF, INC.

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APPENDIX B

EQUIPMENT EXCLUSIVE:
THE NEXT BIG HIT
IN METAL WOODS

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FERRIS, BAKER WATTS, INCORPORATED

APPENDIX C

EUROPEAN MARKET			
Units	1997	Value (US \$'s)	1997
Woods	977,000	Woods	175,112,706
Irons	2,902,700	Irons	219,358,083
			394,471,089
		Total European Market*	555,593,928
	% of Market		Value of Market
United Kingdom			
Woods	66%		115,068,943
Irons	62%		136,060,105
France			
Woods	15%		25,809,856
Irons	13%		28,167,660
Germany			
Woods	8%		14,875,514
Irons	9%		18,741,526
Sweden			
Woods	11%		19,357,392
Irons	17%		35,349,492

* The United Kingdom, France, Germany, and Sweden comprise an estimated 71% of total European market.

Source: Sports Marketing Surveys Ltd. And Ferris Baker Watts estimates.

DOMESTIC EQUIPMENT MARKET BREAKDOWN		
	%	Dollar Value
Total Equipment Market	100%	1,867,000
Total Woods Sales	48%	889,825
Drivers	53%	470,017
Fairway Woods	47%	416,808
Total Iron Sales	38%	700,125
Total Putter Sales	10%	186,700
Total Wedge Sales	5%	93,350

Sources: Golf Pro Magazine, Golf Shop Operations, Golf Daktech and Ferris, Baker Watts estimates.

*does not include market for used clubs or components.

ADAMS GOLF, INC.

Adams Golf
Consolidated Statement of Income
Year Ended December 31
(All figures in \$'000's)

	1998	1997	Mar-98	Jun-98	Sep-98	Dec-98	1998	Mar-99	Jun-99	Sep-99	Dec-99	1999
Net sales	3,522	38,680	24,400	33,917	24,950	20,700	103,867	38,260	48,760	35,750	31,250	152,000
% change		nm	nm	nm	nm	nm	183.1%	56.6%	38.2%	43.3%	51.0%	46.3%
Cost of goods	1,590	9,991	5,900	7,763	6,003	5,120	24,786	10,337	12,930	9,923	8,890	42,060
Gross profit	1,932	28,689	18,500	26,054	18,947	15,580	79,081	27,923	33,820	25,827	22,360	109,920
gross margin	64.9%	72.8%	75.8%	77.0%	75.9%	75.3%	76.1%	73.0%	72.3%	72.2%	71.6%	70%
Selling Expenses	638	13,093	6,200	11,139	7,869	6,831	32,029	10,901	12,866	9,653	8,908	42,310
% of sales	17.8%	35.7%	25.4%	32.9%	31.5%	33.0%	30.6%	28.6%	27.5%	27.0%	28.6%	27.6%
G&A*	1,033	2,178	3,600	3,691	3,668	3,748	14,906	4,760	5,000	5,300	5,400	20,450
% of sales	29.3%	5.9%	14.8%	10.9%	15.0%	17.5%	14.4%	12.4%	10.7%	14.8%	17.3%	13.6%
R&D	51	558	100	457	525	426	1,517	850	926	825	800	3,400
% of sales	1.4%	1.5%	0.4%	1.4%	2.1%	2.1%	1.5%	2.2%	2.0%	2.3%	2.6%	2.2%
Total operating expenses	1,710	15,827	9,900	15,287	12,282	11,004	48,462	16,501	18,781	15,778	15,108	66,166
% of sales	48.6%	43.1%	40.6%	45.2%	48.1%	53.2%	46.6%	43.1%	40.2%	44.1%	48.3%	43.6%
Operating Income	222	10,872	8,600	10,767	6,095	4,577	30,629	11,412	15,039	10,080	7,254	43,764
operating margin	6.3%	29.6%	35.2%	31.8%	26.8%	22.1%	29.5%	29.0%	32.2%	28.1%	23.2%	28.6%
Other Income(Exp.)	4	(102)	100	(11)	500	460	1,039	400	400	450	460	1,700
Pre-tax Income	226	10,770	8,700	10,746	7,195	5,027	31,668	11,812	15,439	10,530	7,704	45,464
pre-tax margin	6.4%	28.4%	35.7%	31.8%	28.8%	24.3%	30.5%	30.9%	33.0%	29.4%	24.7%	29.8%
Taxes	84	3,885	3,219	4,080	2,662	1,860	11,890	4,370	5,712	3,866	2,860	18,018
tax rate	37%	37%	37.0%	38.1%	37.0%	37.0%	37.4%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income	142	6,785	5,481	6,667	4,533	3,167	19,838	7,441	9,728	6,615	4,863	28,530
net margin	4.0%	18.5%	22.5%	19.7%	18.2%	15.3%	19.1%	19.5%	20.6%	18.5%	15.5%	18.8%
EPS	0.01	0.36	0.30	0.35	0.20	0.14	0.95	0.32	0.41	0.28	0.20	1.21
Diluted Shares	19,099	19,099	18,374	19,038	22,690	23,200	20,828	23,400	23,500	23,800	24,000	23,875

1997 G&A does not include \$0.5 million one-time expense.
 Sources: Company data and Farris, Baker Watts estimates.
 Actual periods in bold.

ADAMS GOLF, INC.
BALANCE SHEET
(ALL FIGURES IN \$000'S)

	June 30, 1998 [a]	As of December 31,	
		1997	1995
Assets			
Current Assets			
Cash and Cash Equivalents	61,634	1,956	855
Trade Accounts Receivable	16,239	7,671	498
Inventories (FIFO)	9,670	4,487	675
Deferred Income Taxes	766	390	-
Prepays and Other	1,909	1,447	28
Total Current Assets	90,218	15,950	2,055
Property, Plant, and Equipments, Net	3,048	604	124
Deferred Income Tax	241	183	-
Professional Services Agreement	9,956	-	-
Other Assets	712	624	380
	13,956	1,410	504
Total Assets	104,175	17,360	2,559
Current Liabilities			
Notes Payable	-	-	230
Note Payable to Shareholder	635	-	-
Accounts Payable	2,615	378	18
Accrued Liabilities	8,735	7,636	332
Income Taxes Payable	2,209	1,021	-
Total Current Liabilities	14,094	9,035	580
Note Payable to Shareholder	-	-	-
Total Liabilities	14,094	9,035	580
Stockholders Equity			
Common Stock	23	16	12
Paid in Capital	85,469	14,123	3,126
Retained Earnings	6,486	(5,814)	(1,160)
Stock Subscriptions	(147)	-	-
Deferred Compensation	(1,749)	-	-
Total Stockholders Equity	90,082	8,325	1,978
Total Liabilities and Stockholders Equity	104,175	17,360	2,559

a. As adjusted July 9, 1998 IPO.



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From the desk of
B.H. (Barney) Adams

BHA

Memo

To: Paul Brown, Roland Casati, Finis Conner, Mark Mulvoy, Dick Murland,
Steve Patchin, John Simpson

Date: October 8, 1998

RE: 4TH QUARTER

One thing that is hurting us badly is Costco. It was a problem before, but has greatly escalated in the last two weeks and will be very difficult in Q4 (Christmas).

- A. We don't sell Costco.
- B. They have previously bought our product through some of our customers looking to make a quick buck. This is a modus operandi for Costco. We were never able to trace sources, we attempted to file suit but were unsuccessful.
- C. We committed \$125K to an engraving machine which will engrave a serial number on the hosel of every club head. It's a long lead time product and requires sophisticated installation with our computer system providing tracing ability. The machine should be up and running by end Q4.
- D. In the meantime, the product volume at Costco has increased dramatically (as of the last two weeks), and to our great surprise we are relatively sure their source is one of our largest retail accounts. (A process of elimination with this new volume, not a paper trail.)

Costco makes its money from memberships. They buy a hot product like ours and sell it at a low price (\$149.00 for graphite). Our normal channels can't compete, retailers get mad and stop buying. We can:

- A. Buy the product out of Costco. (They'll just get more).
- B. Compensate our retailers.

We estimate a negative sales effect in Q4 of 20%-25% based on a market survey (customers who refuse to buy). We are countering with our Thank You America program where you get a free \$150.00 stand bag with the purchase of two Tight Lies®, and Costco does not participate.

Except for a lesser amount in the pipeline we'll have this under control by Q1 '99, but it's a problem that has become a major issue in the last two weeks.

BHA:afn

ADAMS 003934

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From the desk of
B.H. (Barney) Adams

BHA

Memo

To: Paul Brown, Roland Casati, Finis Conner, Mark Mulvoy, Dick Murland,
Steve Patchin, John Simpson

Date: October 13, 1998

Re: 4TH QUARTER

The 3rd quarter numbers came out on the high side, the Q4 forecast is awful. I've spent countless hours with sales and (subsequently) finance, and I agree with them that it's better to have a poor forecast we think we can make (and beat) than to put out better sounding numbers and not make them.

Why is Q4 so weak? Terrible golf market, Costco, and to a lesser degree, competition. (We planned for the competition; Costco and the terrible market were more of a surprise.) I say more of a surprise because about 90 days ago we decided to install an aggressive program in case Q4 turned sour.

- A. Our Thank You America, buy two Tight Lies®, get a free stand bag.
- B. A completely new marketing plan, new infomercial, TV ads, print ads.
- C. One on one visits with major customers to optimize A and B above.

There is another reason for Q4 problems. As I've written earlier, after the road show I immersed myself in the sales department. Suffice to say that Chip Brewer inherited situations of a deep and serious nature. We're still affecting solutions and will be doing so through Q4 '98. This is about facts, and if changes hadn't been made Adams Golf would have suffered irreparable damage.

I've written before about '99. A major part of our forecast is the new driver (\$35M). We will have a technically superior product, great looking, great player results and it's a very complex story to tell. We know the issues, we discuss in detail, employ consultants. Notwithstanding anything we try, the fact is our '99 forecast depends on a successful new production introduction in what now is a very down market.

On the other hand, the market is definitely looking for something new and we'll be there. Callaway is at its weakest in the last 5+ years and there is a tremendous opportunity. We feel very good about our future, but we'll never have the luxury of advance orders that meet our forecast.

BHA:afn

ADAMS 003918

ADAMS GOLF, INC.
Comparative Income Statements
For the Periods Ended September 30, 1988

	September 1988				Year to Date through September 1988			
	Actual	% of Sales	Budget	% of Sales	Actual	% of Sales	Budget	% of Sales
Net Sales	7,457,182	100.0%	6,080,425	100.0%	61,314,895	100.0%	77,799,995	100.0%
Cost of Goods Sold	2,007,085	26.9%	2,240,234	37.0%	19,938,004	32.5%	21,800,322	28.0%
Gross Margin	5,448,207	73.1%	3,840,191	63.0%	41,376,891	67.5%	55,999,673	72.0%
Operating Expenses:								
Selling and Royalty Expenses	1,583,853	21.2%	1,924,463	31.6%	24,893,000	40.4%	19,740,977	25.4%
General and Administrative Expenses	798,369	10.7%	1,254,047	20.6%	10,034,093	16.3%	11,552,389	14.8%
Research and Development Expenses	159,492	2.1%	169,601	2.8%	1,117,728	1.8%	1,100,341	1.4%
Total Operating Expenses	2,541,714	34.0%	3,348,111	55.0%	36,044,821	58.8%	32,393,698	41.6%
Operating Income	2,906,493	39.1%	2,492,080	40.8%	5,332,070	8.7%	23,605,975	30.4%
Other Income (Expense):								
Interest Income	233,845	3.1%	133,333	2.2%	100,512	0.2%	633,333	0.7%
Interest Expense	(4,424)	-0.1%	-	0.0%	(4,424)	-0.0%	-	0.0%
Other Income (Expense)	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Net Income before Taxes	3,155,244	42.4%	2,625,213	43.0%	5,427,158	8.8%	24,239,308	31.1%
Income Tax Expense	1,150,087	15.4%	1,093,540	18.0%	9,747,925	15.9%	8,800,000	11.3%
Net Income	2,005,157	27.0%	1,531,673	25.0%	(4,320,767)	-7.1%	15,439,308	19.8%

* Approximates average of analysts' forecasted earnings.

ADAMS 003919

ADAMS GOLF, INC.
Preliminary 1999 Consolidated Budget

	<u>Total 1999</u>	<u>Percent of Net Sales</u>
<u>Gross Revenues - Fairway Woods</u>		
Inside (Wholesale) Sales	68,000,000	
International Sales	20,000,000	
Direct Response Sales	10,000,000	
Custom Fitting Sales	2,000,000	
Total Gross Revenue - Fairway Woods	<u>100,000,000</u>	
<u>Gross Revenues - Driver</u>		
Inside (Wholesale) Sales	31,600,000	
Direct Response Sales	<u>3,400,000</u>	
Total Gross Revenue - Driver	<u>35,000,000</u>	
Total Gross Revenues	135,000,000	
Sales Returns	<u>(8,500,000)</u>	
Total Net Revenues	126,500,000	100.0%
Cost of Goods Sold	<u>39,400,000</u>	<u>31.1%</u>
Gross Margin	87,100,000	68.9%
<u>Selling & Royalty</u>		
Salary Expense	3,987,552	
Benefits Expense	718,122	
Incentive Pay	563,196	
Commissions	1,879,000	
Advertising - Point of Purchase	999,996	
Travel Expense	1,087,000	
Vehicle Expense	2,400	
Outside Services	948,576	
Postage	111,900	
Trade Show Costs & Amortization	316,000	
Informercial/Commercial Amortization	3,107,500	
Telephone	457,654	
Royalties Expense	2,976,163	
Advertising Postage - Direct Mail	499,992	
Advertising - Media Direct Response	13,500,000	
Advertising - Media Brand/Image	8,500,000	
Advertising - Production/Creative	3,092,500	
Depreciation and Amortization	680,108	
Total Selling & Royalty Expenses	<u>43,427,659</u>	<u>34.3%</u>

ADAMS 003920

	Total 1999	Percent of Net Sales
<u>General & Administrative</u>		
Salary Expense	5,135,292	
Benefits Expense	924,335	
Incentive Pay	1,144,152	
Travel Expense	259,300	
Vehicle Expense	30,000	
Outside Services	699,984	
Postage & Freight	24,000	
Telephone	49,337	
Advertising	103,200	
Depreciation and Amortization	1,479,394	
Dues and Subscriptions	211,050	
Insurance Expense	451,140	
Donations	76,000	
Office Supplies	337,500	
Office PC Software	300,000	
Office Repairs and Maintenance	21,000	
Printing Expense	105,996	
Professional Services	999,996	
Professional Development	112,290	
Bank Service Charges	320,000	
Software Licensing & Maintenance	480,996	
Equipment Rental	38,998	
Janitorial	84,000	
Utilities	114,000	
Rent	905,538	
Rent - Common Area Maintenance	177,240	
Miscellaneous	246,000	
Miscellaneous - Ops Clearing	(3,425,438)	
Total General & Administrative Expenses	11,403,299	9.0%
Bad Debt Expense	2,401,000	1.9%
Research & Development Expense	3,045,898	2.4%
Interest/Royalty Income	(2,678,022)	-2.1%
Interest Expense	16,000	0.0%
Net Income before Taxes	29,484,166	23.3%
Income Tax Expense	11,215,778	8.9%
Net Income	18,268,388	14.4%
Estimated Number of Shares Outstanding	21,200,000	
Earnings per Share	\$ 0.86	

ADAMS 003921

ADAMS GOLF, INC.
Major Assumptions – Preliminary 1999 Consolidated Budget

Revenue and Gross Margin

- The Company expects to generate \$35 million in gross revenue from the new Driver to be introduced in January 1999. Approximately 9.7% is expected to be generated through Direct Response sales with the remainder generated by Inside (Wholesale) Sales. Currently, no revenue from Driver sales has been forecasted for International markets, as the focus for 1999 will be to acquire a strong presence domestically in the Driver market.
- The gross revenues for fairways woods include revenue generated from both the existing Tight Lies line of clubs and the Tight Lies II line which is expected to be introduced near the beginning of the third quarter 1999.
- On average, sales returns are expected to be 6.3% of net sales spread across the four selling departments.
- Cost of goods sold is expected to increase from the expected 28% in the 4th quarter of 1998 to approximately 31% for 1999. The increase in the cost of goods sold percentage is primarily attributable to the increased cost of the Driver coupled with declining margins on the Tight Lies line of clubs.

Selling and Royalty Expense

- On average, salary expense is expected to increase approximately 8% company wide with an additional 32 employees budgeted in the various selling departments. Benefits are expected to be accrued at a rate of 18% of salaries. The Company also expects to pay incentive bonuses on a quarterly and annual basis under the current bonus structure.
- Commissions are expected to average approximately 1.5% of net sales based on the current commission structure and historical results.
- The Company expects to introduce three new infomercials during 1999 highlighting the Driver and the new Tight Lies II line of clubs. In addition, on a quarterly basis the company expects to develop and air two new commercials per quarter to drive and continue consumer interest in the Company's products. In addition to the costs budgeted for development of these new infomercials, the Company has budgeted approximately \$13.5 million for media time to air the infomercials with the remaining \$12.1 million of the advertising budgeted for direct mail, print, and various other types of advertising.
- Near the beginning of the third quarter the Company expects to begin operation of a distribution facility (wholly owned subsidiary) in Japan to develop the Far East markets. Approximately \$1.3 million has been budgeted in selling and royalty expense for the setup and continuing costs of operation of the distribution facility.
- The Company expects royalty expense to average 2.4% of net revenues company wide. Royalties are generated at a rate of 5% of international sales pursuant to the Faldo agreement. In addition, the Company expects to continue to pay (through October 1999) Script to Screen royalties on the original infomercial and additional royalties to "personalities" who appear in the infomercial scheduled to air in October of 1998 and the three new infomercials expected to air at various dates during 1999.

ADAMS 003922

ADAMS GOLF, INC.
Company Wide Operating Analysis -- Income Statement
For the Periods Ended September 30, 1998

Overview and Significant Developments

During September, the Company made its first shipments of the Strong 2 and 11 woods and expects increased market penetration and consequently, revenue generation, from these products in future months based on planned advertising efforts. During the third week in October, the Company expects to introduce a new infomercial highlighting all lots of the Tight Lies line of clubs and the advantages of the greater "effective hitting area" offered by the line. Also, the Company continues testing of the new prototype Driver which it expects to introduce during January 1999. The Company anticipates that the introduction of the Driver will result in significant additional revenues. In addition, during the month, the Company indicated it's intent to repurchase up to two million shares of it's common stock through open market transactions.

A Net Sales

During the current month, the Company's existing products produced \$7.5 million in net sales compared to \$6.5 million in August 1998. The increase in net sales over the prior month is primarily the result of orders received during the month of August at the PGA show in Las Vegas. For the month of September, the Company reflected an unfavorable variance compared to budget as actual net sales were less than budgeted net sales by approximately \$500 thousand. The unfavorable variance for the month results partially from reaching a more mature point in the Company's lifecycle which exposes the Company to the seasonal sales trends of the industry. Coupled with the seasonal effect, the Company also experienced a reduced level of revenue generation by direct response advertising as the existing infomercial was aired only a minimal number of times during the month in anticipation of the introduction of the new infomercial in October 1998. To maximize the impact to the Company of the new infomercial, which will begin airing on or about October 17, a period of several weeks without the airing of the existing infomercial was recommended. With regard to year to date net sales, the Company continues to be approximately \$3.5 million over forecasted sales for the nine months ended September 30, 1998.

B Cost of Goods Sold

For the month and nine months ended September 30, 1998, the Company continues to experience a positive variance from budget with regard to cost of goods sold. This positive trend is the result of an increased percentage of net sales attributable to the higher margin Tight Lies fairway woods and the inherent costs savings associated with buying components in large volumes and assembling them on a substantially increased scale.

ADAMS 003923

C Selling and Royalty Expenses

For the Month of September 1998, the Company experienced an overall positive variance of \$361 thousand as compared to budgeted amounts for the same period. The following table summarizes the major variances within the Selling and Royalty Expense category.

	Positive/ (Negative)
Advertising	\$ 535,044
Royalties	(38,965)
Outside Services	(61,863)
Other	(73,406)
Net Favorable Variance - Selling and Royalty Expense	<u>\$ 360,810</u>

The net favorable variance as compared to budget for the month of September is primarily due to a positive variance in advertising resulting from decisions made earlier in the year to accelerate specific advertising promotions. Therefore, the favorable variance in the current month partially offsets unfavorable variances reflected for advertising during preceding months. With regard to the current month, the favorable variance in advertising was partially offset by unfavorable variances in the royalty and outside services categories. The unfavorable variance in royalties is due to the 3% royalty paid to Nick Faldo on net international sales. International sales significantly exceeded the forecast for September. With regard to outside services, the unfavorable variance as compared to budget is due to costs exceeding budget amounts for fees relating to Telegolf and consulting fees relating to services provided by Ric Jarrett (originally budgeted as a general and administrative expense but more properly classified as a selling expense). The unfavorable variance in the other category is comprised of many individually insignificant unfavorable variances which aggregate to the total shown above. It is further noted that actual year to date expenses through September 1998 are in excess of budget by approximately \$5 million primarily due to the items discussed above and significant image based advertising that occurred in June 1998.

D General and Administrative Expenses

For the month of September 1998, the Company experienced an overall favorable variance of \$457 thousand as compared to budgeted amounts for the same period. The following table summarizes the variances within general and administrative expense category.

	Positive/ (Negative)
Labor & Benefits	\$ 134,025
Bad Debt Expense	62,934
Bank Service Charges	26,560
Other	233,159
Net Positive Variance - General and Administrative Expense	<u>\$ 456,678</u>

The favorable variance in labor and benefits is primarily due to a change in the employee mix that has caused a reduction in the average salaries and related benefits during the month. The favorable variance in bad debt expense is due to the Company anticipating a more dramatic deterioration in the aging than has actually occurred. Therefore, based on a detailed review of the current allowance for uncollectible accounts, it was determined that a significant increase in the allowance during the current month was not required. The positive variance in bank service charges is due to a reduction in the letters of credit issued to inventory suppliers. The Company reduced inventory purchases significantly to begin reducing the level of inventory currently on

ADAMS 003924

hand. The positive variance in the other category is comprised of many individually insignificant positive variances which aggregate to the total shown above.

With regard to the year to date results through July 1998 as compared to budget, the Company continues to show a favorable variance of approximately 13%. The favorable variance is primarily the result of actual bad debt expense being significantly below budget due to positive credit and collections efforts during the first half of 1998.

E Research and Development Expense

For the month of September 1998, research and development expense experienced a slight negative variance as compared to budget, and for year to date, approximates budgeted amounts.

F Interest Income, Interest Expense, and Other Income (Expense)

The majority of the actual amounts shown for September 1998 and year to date through September 1998 are the result of interest derived from the proceeds of the initial public offering which have been invested in marketable debt securities which mature at various dates through 2001. Interest income will decrease slightly over the remainder of 1998 due to the Company utilizing cash and cash equivalents to fund the repurchase of shares of its common stock.

G Income Tax Expense

Income Tax Expense for the current month was \$1.1 million yielding an effective tax rate of 35.8%. The year to date effective tax rate is approximately 36.9% and approximates the rate expected to be utilized for year end results.

ADAMS 003925

Adams Golf, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	Assets	
	December 31, 1997	September 30, 1998 (unaudited)
Current Assets:		
Cash and cash equivalents	1,956	29,195
Marketable securities	-	2,115
Trade receivables, net	7,671	12,899
Inventories	4,487	10,879
Deferred income tax assets	390	866
Other current assets	1,446	3,419
Total current assets	15,950	65,373
Property and equipment, net	604	3,524
Marketable securities	-	26,263
Deferred income tax assets	183	-
Professional services agreement	-	9,703
Other assets, net	623	1,800
	<u>17,360</u>	<u>106,663</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	378	888
Note payable to stockholder	-	535
Federal income taxes payable	1,021	-
Accrued expenses	7,636	6,300
Other current liabilities	-	250
Total current liabilities	9,035	7,973
Deferred income tax liabilities	-	3,182
Total liabilities	9,035	11,155
Stockholders' equity:		
Common stock	16	23
Additional paid in capital	14,123	85,891
Common stock subscription	-	(22)
Deferred compensation	-	(1,303)
Retained earnings (accumulated deficit)	(5,814)	10,832
Accumulated other comprehensive income	-	87
Total stockholders' equity	8,325	95,508
	<u>17,360</u>	<u>106,663</u>

ADAMS 003926

Adams Golf, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands except for share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1998	1997	1998
Net Sales	14,236	22,987	19,685	81,315
Cost of goods sold	3,603	6,001	5,745	19,626
Gross profit	10,633	16,986	13,940	61,689
Operating expenses:				
Selling and royalty expenses	5,568	7,296	7,854	24,683
General and administrative expenses	593	3,011	1,507	10,034
Research and development expenses	260	454	298	1,118
Total operating expenses	6,421	10,761	9,659	35,835
Operating profit	4,212	6,225	4,281	25,854
Other income (expense):				
Interest income	37	666	46	598
Interest expense	(25)	(15)	(48)	(58)
Income before income taxes	4,224	6,876	4,279	26,394
Income tax expense	1,080	2,529	1,094	9,748
Net income	3,143	4,347	3,185	16,646
Other comprehensive income, net of tax - unrealized gains on marketable securities	-	87	-	87
Comprehensive income	3,143	4,434	3,185	16,733
Net income per common share:				
Basic	0.26	0.19	0.27	0.84
Diluted	0.26	0.19	0.27	0.83
Weighted average number of common shares outstanding:				
Basic	12,156,878	22,695,478	11,968,472	19,714,997
Diluted	12,156,878	22,748,523	11,968,472	20,011,800

ADAMS 003927

ADAMS GOLF, INC.
4th Quarter 1998 Forecast

	<u>4th Qtr.</u> <u>1998</u>	<u>Percent of</u> <u>Net Sales</u>
<u>Gross Revenues</u>		
Inside (Wholesale) Sales	9,600,000	
International Sales	2,130,000	
Direct Response Sales	2,000,000	
Custom Fitting Sales	<u>270,000</u>	
Total Gross Revenue	14,000,000	
 Sales Returns	 <u>(819,000)</u>	
Total Net Revenues	13,181,000	100.0%
 Cost of Goods Sold	 <u>3,690,580</u>	 <u>28.0%</u>
Gross Margin	9,490,320	72.0%
 <u>Selling & Royalty</u>		
Salary Expense	570,000	
Benefits Expense	55,000	
Incentive Pay	90,000	
Commissions	263,620	
Travel Expense	180,000	
Vehicle Expense	3,000	
Outside Services	360,000	
Postage	(40,000)	
Telephone	85,000	
Royalties Expense	659,050	
Advertising - Media Direct Response	4,200,000	
Advertising - Bag Promotion	809,071	
Advertising - Production/Creative	200,000	
Depreciation and Amortization	<u>507,000</u>	
Total Selling & Royalty Expenses	7,941,741	<u>60.3%</u>

ADAMS 003928

	4th Qtr. 1998	Percent of Net Sales
<u>General & Administrative</u>		
Salary Expense	675,000	
Benefits Expense	60,000	
Incentive Pay	210,000	
Travel Expense	45,000	
Vehicle Expense	9,000	
Postage & Freight	240,000	
Telephone	15,000	
Depreciation and Amortization	280,000	
Dues and Subscriptions	9,000	
Insurance Expense	105,000	
Office Supplies	90,000	
Office PC-Software	45,000	
Office Repairs and Maintenance	9,000	
Printing Expense	4,500	
Professional Services	600,000	
Professional Development	9,000	
Bank Service Charges	142,500	
Software Licensing & Maintenance	21,000	
Equipment Rental	21,000	
Janitorial	21,000	
Utilities	21,000	
Rent	174,000	
Rent - Common Area Maintenance	45,000	
Miscellaneous	550,000	
Miscellaneous - Ops Clearing	(1,440,000)	
Total General & Administrative Expenses	1,961,000	14.9%
Bad Debt Expense	500,000	3.8%
Research & Development Expense	482,625	3.7%
Interest/Royalty Income	(700,000)	-5.3%
Interest Expense	11,000	0.1%
Net Loss before Taxes	(706,046)	-5.4%
Income Tax Benefit	(268,580)	-2.0%
Net Loss	(437,466)	-3.3%
Estimated Number of Shares Outstanding	23,136,782	
Loss per Share	\$ (0.02)	

ADAMS 003929

ADAMS GOLF, INC.
Major Assumptions – 4th Quarter Forecast

Net Revenues

- The Company expects to generate net revenues of approximately \$13.1 million for the 4th quarter based on sales department forecasts.

Cost of Goods Sold

- The Company expects cost of goods sold for the 4th quarter to be approximately 28% based on price erosion and static operating costs.

Selling and Royalty Expense

- The Company considered historical operating results as a baseline for arriving at the 4th quarter estimated amounts.
- The assumptions do not reflect any significant increase in headcount during the 4th quarter or modification to the existing incentive compensation plan.
- Based on the introduction of a new infomercial in October, the Company has budgeted approximately \$4.2 million to cover the amortization of the creative costs and airtime. In addition, the \$4.2 million includes all costs associated with print and spot commercials during the quarter.
- The estimates also include approximately \$810 thousand of expenses relating to the bag promotion.

General and Administrative Expense

- In arriving at the amounts estimated for the 4th quarter, no significant changes were made from historical results and the components of general and administrative expense are expected to remain static.

Research and Development

- The Company does not expect to incur any significant additional Research and Development costs other than the routine costs which were included in the actual year to date results.

Interest Income

- The Company expects interest income to remain relatively constant at a return of 5% on investment and considers the reduction in cash and cash equivalents to fund the re-purchase of up to 2,000,000 shares of the Company's common stock through the open market.

Income Taxes

- Due to the Company expecting to record a net loss for the fourth quarter, an expected income tax benefit has been estimated at 38% of the pre-tax loss.

ADAMS 003930

General and Administrative Expense

- On average, salary expense is expected to increase approximately 8% company wide with an additional 13 employees budgeted in the various general and administrative departments. It should be noted that 8 of these employees are current information technology contractors that will be converted to Adams employees. This will reduce the amount expense associated with information technology support as the Company currently pays consulting fees for these contractors. Benefits are expected to be accrued at a rate of 18% of salaries. The Company also expects to pay incentive bonuses on a quarterly and annual basis under the current bonus structure.
- For 1999, outside services is comprised of the expected monthly cost (\$16,666) associated with contracting with outside agencies to provide guidance and promotion of the Company's stock. In addition, the Company expects to contract with various outside agencies to handle overflow calls from the Adams call center and an independent consultant to provide additional guidance in the area of advertising development.
- The Company expects to incur significant Depreciation and Amortization relating to the current year implementation of the Seibel and PeopleSoft information systems, as well as the current year capital budget. See attached page for a summary of the 1999 capital budget.
- The Company expects to continue to incur costs for Professional Services in the area of Information Technology as the Company will utilize Midwest Consulting Group to accommodate times of increased activity resulting from new capital projects in 1999. Also, approximately \$600,000 has been budgeted for legal fees in 1999 which constitutes the largest percentage of the professional services category.

Bad Debt Expense

- The Company expects the bad debt expense to average approximately 2% of net sales based on historical write-offs and the expected level of net sales in 1999.

Research and Development Expense

- Research and Development expense is primarily comprised of the monthly amortization (\$85,000) of the deferred compensation associated with Nick Faldo agreement to aid in development of new products. In addition, the other major component of this line item is depreciation and amortization associated with new capital items expected to be purchased early in 1999.

Interest/Royalty Income

- The Company expects to continue investing the current levels of cash, cash equivalents, and investments in various types of instruments, which are expected to yield an average return of 5%.

Income Tax Expense

- The Company expects that for 1999 the effective tax rate will be approximately 38%.

ADAMS 003931

ADAMS GOLF, INC.
1999 Capital Budget
For the Year Ended December 31, 1999

	<u>Estimated Capital Expense</u>
<i>Buildings:</i>	
1,000 Square Foot Field Test Facility	400,000
Total Buildings	<u>400,000</u>
<i>Equipment:</i>	
Field Test Facility Equipment (Iron Byron Swing Test Machine, Camera Equip. & Related Computer Acces.)	800,000
Stereo Lithography Machine	1,500,000
Laboratory Testing Equipment	100,000
Assembly and Production Equipment	20,000
Japanese Subsidiary - Manufacturing Equipment	50,000
Total Equipment	<u>2,470,000</u>
<i>Computer & Software:</i>	
Data Modeling & Mapping	10,000
PeopleSoft Phase II	155,000
PeopleSoft Phase III	275,000
Electronic Document Exchange	90,000
Data Warehousing	400,000
Product Bar Coding Software	140,000
Japanese Subsidiary - Computer Hardware and Software	60,000
Total Computer & Software	<u>1,130,000</u>
<i>Telecommunications:</i>	
None	-
Total Telecommunications	<u>-</u>
<i>Furniture & Fixtures:</i>	
Additional Office Furniture	25,000
Japanese Subsidiary - Office Furniture	40,000
Total Furniture & Fixtures	<u>65,000</u>
<i>Leasehold Improvements:</i>	
Additional Internal Office Construction	25,000
Japanese Subsidiary - Office Construction	50,000
Total Leasehold Improvements	<u>75,000</u>
<i>Total Capital Expenditures</i>	<u><u>4,140,000</u></u>

ADAMS 003932


[About Adams Golf](#)

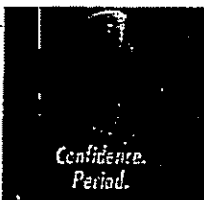

Overview	▶
Corporate Governance	▶
Stock Quotes	▶
Stock Charts	▶
Fundamentals	▶
News Releases	▶
SEC Filings	▶
Calendar	▶
Info Request	▶
FAQ	▶
Email Alert	▶

Adams Golf (ticker: ADGO, exchange: Nasdaq) News Release - Thursday, October 22, 1998

Adams Golf Reports Third Quarter Operating Results

Plano, Texas - October 22, 1998

Adams Golf (NASDAQ:ADGO) today announced operating results for the third quarter ended September 30, 1998. Net sales increased 61.5 percent to \$22,986,702 as compared to net sales of \$14,236,078 during the third quarter of 1997. Net income increased to \$4,346,389 for the three months ended September 30, 1998 from \$3,143,967 for the comparable period in 1997. Net income per common share decreased to \$0.19 for the three months ended September 30, 1998 from \$0.26 per share for the comparable period of 1997 based on weighted average diluted common shares outstanding of 22,748,523 and 12,156,878, respectively.


[Back to homepage](#)

For the nine months ended September 30, 1998, net sales were \$81,314,895; an increase of 313 percent from \$19,684,813 for the comparable period in 1997. Net income for the nine months ended September 30, 1998 was \$16,645,897 versus \$3,184,807 for the first nine months of 1997. Net income per common share increased to \$0.83 for the nine months ended September 30, 1998 from \$0.27 per share for the comparable period of 1997 based on weighted average diluted common shares outstanding of 20,011,800 and 11,968,472, respectively.

"We are pleased with our third quarter results, especially considering the general softening we have seen in the golf equipment market," stated Barney Adams, Chairman, CEO and President of Adams Golf.

Commenting on the Company's outlook for the fourth quarter, Mr. Adams stated, "At this time, we expect our fourth quarter sales will be affected by continuing weakness in the golf equipment market. In addition, we anticipate our sales will be further impacted by the recent gray market distribution of our products to a membership warehouse club. While we are working diligently to identify and stop the unauthorized distribution of our products to this retailer, we anticipate this process will take at least through the end of the year. As a result of these market conditions, we anticipate that our net income for the fourth quarter will be at or slightly above a break even level. We remain optimistic, however, about our ability to increase our sales and earnings in 1999 through the

introduction of new products and the continued expansion of our marketing efforts both domestically and internationally."

Further Mr. Adams stated, "In response to current market conditions, we have recently rolled out a new marketing campaign offering a high quality golf bag free to consumers who purchase any two Tight Lies(R) fairway woods. Based on preliminary reaction from our retailers, we believe this promotion will help stimulate sales and reduce the gray market distribution as the free bag is available only to customers who purchase Tight Lies clubs through authorized Adams Golf retailers. In addition, we will begin airing a new Tight Lies infomercial within the next week which focuses on the expanded line of Tight Lies products and highlights the benefits of the Tight Lies fairway wood over clubs currently offered by our competitors. Meanwhile, we are continuing our research and development efforts and the new driver remains on track for introduction in the first quarter of the new year," concluded Barney Adams.

On October 1, 1998, Adams Golf announced that its Board of Directors had authorized the repurchase of up to two million shares of the Company's common stock. With respect to this share repurchase program, Adams Golf has purchased 657,500 shares of the Company's common stock to date.

Adams Golf designs, manufactures and markets premium quality, technologically innovative golf clubs including the Tight Lies fairway woods. Further information on the Company can be found on its Internet site, www.adamsgolf.com.

This release, other than historical information, includes forward-looking statements with respect to industry trends and certain other matters. These statements are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including but not limited to the following: product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions; business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus, and other Securities and Exchange Commission filings. These filings can be obtained by contacting Adams Golf Investor Relations.

[Please note: The original copy of this news release included two additional pages, consisting of the Company's

Adams Golf Investor Relations

Page 3 of 3

Condensed Consolidated Statements of Operations and Balance Sheets. If you would like to receive a copy of the full news release, please call (972) 673-9850 and leave your fax telephone number. A copy of the release will be faxed to you as soon as possible.]

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Adams Golf's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.

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ADAMS GOLF INC

FORM 10-Q (Quarterly Report)

Filed 11/12/1998 For Period Ending 9/30/1998

Address	2801 EAST PLANO PARKWAY PLANO, Texas 75074
Telephone	972-673-9000
CIK	0001059763
Industry	Recreational Products
Sector	Consumer Cyclical
Fiscal Year	12/31

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended September 30, 1998

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 0-24583

ADAMS GOLF, INC

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation organization)

75-2320087
(I.R.S. Employer or
Identification No.)

300 Delaware Avenue, Suite 548, Wilmington, Delaware
(Address of principal executive offices)

19801
(Zip Code)

(302) 427-5892
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

The number of outstanding shares of the registrant's common stock, par value \$.001 per share, was 22,479,282 on November 10, 1998.

ADAMS GOLF, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page

PART I Item 1. FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets - December 31, 1997 and September 30, 1998 (unaudited)	3
Unaudited Condensed Consolidated Statements of Operations - Three months and nine months ended September 30, 1997 and September 30, 1998	4
Unaudited Condensed Consolidated Statements of Stockholders' Equity - Nine months ended September 30, 1998	5
Unaudited Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 1997 and September 30, 1998	6
Notes to Unaudited Condensed Consolidated Financial Statements	7-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	N/A
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	15
Item 2. Changes in Securities and Use of Proceeds	15
Item 3. Defaults Upon Senior Securities	N/A
Item 4. Submissions of Matters to a Vote of Security Holders	N/A
Item 5. Other Information	N/A
Item 6. Exhibits and Reports on Form 8-K	15

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	-----	----- (UNAUDITED)
Current assets:		
Cash and cash equivalents	\$ 1,956	\$ 29,196
Marketable securities (note 3)	-	8,120
Trade receivables, net of allowance for doubtful accounts of \$698 and \$1,444 (unaudited) in 1997 and 1998, respectively	7,671	12,899
Inventories (note 4)	4,487	10,879
Prepaid expenses	509	1,074
Income tax receivable	-	1,431
Deferred income tax assets	390	866
Other current assets	937	908
	-----	-----
Total current assets	15,950	65,373
Property and equipment, net	604	3,524
Marketable securities (note 3)	-	26,263
Deferred income tax assets	183	-
Professional services agreement (note 5)	-	9,703
Other assets, net	623	1,800
	-----	-----
	\$17,360	\$106,663
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable to shareholder	\$ -	\$ 535
Accounts payable	378	438
Federal income taxes payable	1,021	-
Accrued expenses	7,636	7,000
	-----	-----
Total current liabilities	9,035	7,973
Deferred income tax liabilities	-	3,182
	-----	-----
Total liabilities	9,035	11,155
	-----	-----
Stockholders' equity:		
Common stock, \$.001 par value. Authorized 50,000,000 shares; 15,719,338 and 23,136,782 (unaudited) shares issued and outstanding at December 31, 1997 and September 30, 1998, respectively	16	23
Additional paid-in capital	14,123	85,891
Common stock subscription	-	(22)
Deferred compensation	-	(1,303)
Accumulated other comprehensive income	-	87
Retained earnings (accumulated deficit)	(5,814)	10,832
	-----	-----
Total stockholders' equity	8,325	95,508
Commitments (note 5)		
	\$17,360	\$106,663
	-----	-----

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1998	1997	1998
Net sales	\$14,236	\$22,987	\$19,685	\$81,315
Cost of goods sold	3,603	6,001	5,745	19,626
Gross profit	10,633	16,986	13,940	61,689
Operating expenses:				
Research and development expenses	260	454	298	1,118
Selling and royalty expenses	5,568	7,296	7,854	24,683
General and administrative expenses	376	2,443	1,214	8,820
Provision for bad debts	217	568	293	1,214
Total operating expenses	6,421	10,761	9,659	35,835
Operating income	4,212	6,225	4,281	25,854
Other:				
Interest income	-	668	2	702
Interest expense	(27)	(15)	(48)	(58)
Other income (expense)	39	(2)	34	(104)
Income before income taxes	4,224	6,876	4,279	26,394
Income tax expense	1,080	2,530	1,094	9,748
Net income	\$ 3,144	\$ 4,346	\$ 3,185	\$16,646
Income per common share (note 7):				
Basic	\$ 0.26	\$ 0.19	\$ 0.27	\$ 0.84
Diluted	\$ 0.26	\$ 0.19	\$ 0.27	\$ 0.83

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)NINE MONTHS ENDED SEPTEMBER 30, 1998
(UNAUDITED)

	SHARES OF COMMON STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	COMMON STOCK SUBSCRIPTION	DEFERRED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, December 31, 1997	15,719,338	\$ 16	\$ 14,123	\$ -	\$ -	\$-
Issuance of common stock	4,037,500	4	58,824	-	-	-
Issuance of stock options	-	-	2,027	-	(2,027)	-
Stock option forfeiture	-	-	(135)	-	135	-
Exercise of stock options	2,479,944	2	928	(230)	-	-
Payment of stock subscription	-	-	-	208	-	-
Grant of stock (note 5)	900,000	1	10,124	-	-	-
Deferred compensation amortization	-	-	-	-	589	-
Comprehensive income:						
Net income	-	-	-	-	-	-
Other comprehensive income, net of tax - unrealized gains on marketable securities	-	-	-	-	-	87
Comprehensive income	-	-	-	-	-	-
Balance, September 30, 1998	23,136,782	\$ 23	\$ 85,891	\$(22)	\$ (1,303)	\$ 87

	RETAINED EARNINGS (ACCUMULATED DEFICIT)	COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1997	\$ (5,814)	\$ -	\$ 8,325
Issuance of common stock	-	-	58,828
Issuance of stock options	-	-	-
Stock option forfeiture	-	-	-
Exercise of stock options	-	-	700
Payment of stock subscription	-	-	208
Grant of stock (note 5)	-	-	10,125
Deferred compensation amortization	-	-	589
Comprehensive income:			
Net income	16,646	16,646	16,646
Other comprehensive income, net of tax - unrealized gains on marketable securities	-	87	87
Comprehensive income	-	\$16,733	-
Balance, September 30, 1998	\$ 10,832		\$ 95,508

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998
Cash flows from operating activities:		
Net income.	\$ 3,185	\$16,646
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment and intangible assets	164	1,495
Loss on retirement of fixed assets.	-	101
Amortization of deferred compensation	-	589
Deferred income taxes	-	2,889
Allowance for doubtful accounts	446	746
Changes in assets and liabilities:		
Trade receivables	(6,648)	(5,974)
Inventories	(2,016)	(6,392)
Prepaid expenses	(381)	(565)
Income tax receivable	-	(1,431)
Other current assets.	(103)	29
Other assets.	53	(1,394)
Accounts payable.	698	60
Federal income taxes payable.	875	(1,021)
Other current liabilities	2,016	-
Accrued expenses.	985	(636)
Net cash provided by (used in) operating activities.	(726)	5,142
Cash flows from investing activities:		
Purchases of marketable securities.	-	(34,251)
Purchase of equipment	(382)	(3,922)
Net cash used in investing activities	(382)	(38,173)
Cash flows from financing activities:		
Proceeds from initial public offering	-	60,078
Initial public offering costs	-	(1,250)
Proceeds from notes payable and line of credit.	250	7,135
Repayment of line of credit borrowings.	(30)	(6,000)
Repayment of notes payable.	(450)	(600)
Issuance of common stock.	1,000	908
Net cash provided by financing activities	770	60,271
Net increase (decrease) in cash and cash equivalents	(338)	27,240
Cash and cash equivalents at beginning of period.	855	1,956
Cash and cash equivalents at end of period.	\$ 517	\$29,196
Supplemental disclosure of cash flow information:		
Interest paid	\$ 48	\$ 34
Income taxes paid	\$ -	\$11,916
Supplemental disclosure of non-cash investing activity - change in unrealized holding gains and losses on investment securities available for sale, net of taxes.	\$ -	\$ 87
Supplemental disclosure of non-cash financing activity:		
Stock issued for professional services agreement (note 5).	\$ -	\$10,125
Exchange of debt for common stock	\$ 450	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

ADAMS GOLF, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Adams Golf, Inc. (the "Company") for the three and nine month periods ended September 30, 1997 and 1998 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to SEC rules and regulations. The notes to the condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company's registration statement on Form S-1 (the "S-1") declared effective by the SEC on July 9, 1998.

The Company, founded in 1987, designs, manufactures, markets, and distributes premium quality, technologically innovative golf clubs and provides custom golf club fitting technology. The Company's primary products are fairway woods that are marketed under the trademark Tight Lies-Registered Trademark-.

2. INITIAL PUBLIC OFFERING

The Company completed the sale of 4,000,000 shares of common stock through an initial public offering (the "Offering") on July 15, 1998. The Offering resulted in net proceeds to the Company of approximately \$58.3 million after deducting offering expenses, discounts and commissions. On July 20, 1998, the Company completed the sale of an additional 37,500 shares of common stock in connection with the underwriters' exercise of their option to cover over-allotments, resulting in net proceeds of \$0.5 million.

3. MARKETABLE SECURITIES

Marketable securities, consisting of commercial paper, governmental and corporate bonds and other high quality debt securities, are managed under agreements with investment managers. The agreements provide terms related to the quality, diversification and maturities of the investments in the managed portfolios. The investments are classified as available-for-sale and are carried at fair value, with unrealized gains and losses, net of the related tax effect, reported as comprehensive income in the statement of stockholders' equity.

4. INVENTORIES

Inventories consist of the following (in thousands):

	DECEMBER 31, 1997	SEPTEMBER 30, 1998
	----	----
		(UNAUDITED)
Finished goods	\$ 2,064	\$ 2,851
Component parts	2,423	8,028
	-----	-----
	\$ 4,487	\$ 10,879
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5. PROFESSIONAL SERVICES AGREEMENT

The professional services agreement consists of a contract entered into by the Company and Nicholas A. Faldo ("Faldo"), a professional golfer, which provides for Faldo's endorsement and use of the Company's products, as well as the design, development and testing of new technologies and products. As consideration for such services, Faldo received 900,000 shares of the Company's common stock, which were valued at the fair market value of the stock (\$11.25 per share) as of May 1, 1998, the effective date of the agreement. The value of the stock will be amortized over ten years, which represents the estimated period during which the Company will realize benefits under the agreement.

6. COMMITMENTS

The Company had outstanding commitments (denominated in U.S. dollars) on letters of credit of \$803,000 at September 30, 1998 for the purchase of inventory from foreign vendors.

7. INCOME PER SHARE

The weighted average common shares used for determining basic income per common share were 12,156,878 and 22,695,478 for the three months ended September 30, 1997 and 1998, respectively, and 11,968,472 and 19,714,997 for the nine months ended September 30, 1997 and 1998, respectively. The effect of dilutive stock options added 53,045 shares and 296,803 shares for the three and nine months ended September 30, 1998, respectively, for the computation of diluted income per common share. Stock options outstanding for the three and nine months ended September 30, 1997 were not considered in the computation of net income per common share because their effect is immaterial or antidilutive.

8. NEW ACCOUNTING PRONOUNCEMENTS

The Company is assessing the reporting and disclosure requirements of SFAS

No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION.

This statement requires a public business enterprise to report financial and descriptive information about its reportable operating segments. The statement is effective for financial statements for periods beginning after December 15, 1997, but is not required for interim financial statements in the initial year of its application. The Company will adopt the provisions of SFAS No. 131 in its December 31, 1998 consolidated financial statements.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), REPORTING OF THE COSTS OF START-UP ACTIVITIES, which is effective for financial statements issued for periods beginning after December 15, 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. The Company believes SOP 98-5 will not have a material impact on its financial statements or accounting policies. The Company will adopt the provisions of SOP 98-5 in the first quarter of 1999.

The Company is also assessing the reporting and disclosure requirements of SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. The statement is effective for financial statements for fiscal years beginning after June 15, 1999. The Company believes SFAS No. 133 will not have a material impact on its financial statements or accounting policies. The Company will adopt the provisions of SFAS No. 133 in the first quarter of 2000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is management's representation of the financial position as of September 30, 1998 and the results of operations of the Company for the three months and nine months ended September 30, 1997 and 1998. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto, and with the Company's consolidated financial statements and notes thereto included in the S-1.

OVERVIEW

The Company designs, manufactures, markets and distributes premium quality, technologically innovative golf clubs. Founded in 1987, the Company operated initially as a components supplier and contract manufacturer. Thereafter, the Company established its custom fitting operation, which currently services a network of over 100 certified custom fitting accounts. In the fall of 1995, the Company introduced the original Tight Lies-Registered Trademark- fairway wood and, in December 1996, the Company extended the Tight Lies-Registered Trademark- line to include the Tight Lies-Registered Trademark- Strong 3, Strong 5 and Strong 7, with the Tight Lies-Registered Trademark- Strong 9 being introduced in January 1998. Sales of the Tight Lies-Registered Trademark- line of products increased significantly subsequent to the second quarter of 1997 when the Company launched an infomercial relating to the original Tight Lies-Registered Trademark- fairway wood. To further enhance the Tight Lies-Registered Trademark- line of products, the Company introduced the Strong 2 Tour Brassie and the Strong 11 in late August 1998. The Company's net sales are primarily derived from sales to on- and off-course golf shops and selected sporting goods retailers and, to a lesser extent, direct sales to consumers, international distributors and the Company's custom fitting accounts.

The Company does not currently manufacture the components required to assemble its golf clubs, relying instead on various component suppliers. Costs of the Company's Tight Lies-Registered Trademark- fairway woods consist primarily of component parts, including the head, shaft and grip. To a lesser extent, the Company's cost of goods sold includes labor and occupancy costs in connection with the inspection, testing and assembly of component parts at its facility in Plano, Texas.

RESULTS OF OPERATIONS

The following table sets forth operating results expressed as a percentage of net sales for the periods indicated. All information is derived from the accompanying unaudited condensed consolidated financial statements. Results for any one or more periods are not necessarily indicative of annual results or continuing trends. See "Seasonality and Quarterly Fluctuations" below.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1997	1998
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	25.3	26.1	29.2	24.1
Gross profit	74.7	73.9	70.8	75.9
Operating expenses	45.1	46.8	49.1	44.1
Operating income	29.6	27.1	21.7	31.8
Interest income (expense), net	(0.2)	2.8	(0.2)	0.8
Other income (expense)	0.3	0.0	0.2	(0.1)
Income before income taxes	29.7	29.9	21.7	32.5
Income tax expense	7.6	11.0	5.5	12.0
Net income	22.1	18.9	16.2	20.5

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1998

Net sales increased to \$23.0 million for the three months ended September 30, 1998 from \$14.2 million for the comparable period of 1997, primarily due to the continued market acceptance of the Company's Tight Lies-Registered Trademark-line of fairway woods, and, to a lesser extent, the introduction of the Strong 2 Tour Brassie and the Strong 11 in late August 1998. Net sales of the Tight Lies-Registered Trademark-line of fairway woods increased to \$22.1 million for the three months ended September 30, 1998 from \$13.5 million for the comparable period of 1997, and increased as a percentage of net sales to 96.1% from 95.1%, respectively. Sales of the Tight Lies-Registered Trademark-fairway woods increased subsequent to the Company's introduction of an infomercial marketing its original Tight Lies-Registered Trademark-fairway wood in the second quarter of 1997. Net sales of other product lines for the three months ended September 30, 1998 increased to \$0.9 million from \$0.7 million for the comparable period of 1997, but decreased as a percentage of net sales to 3.9% from 4.9%, respectively. Net sales of the Company's products outside the U.S. increased to \$3.3 million for the three months ended September 30, 1998 from \$0.1 million for the three months ended September 30, 1997, and increased as a percentage of net sales to 14.3% from 0.7%, respectively. The increase in international sales was due to increased market acceptance of the Tight Lies-Registered Trademark-fairway woods and expanded international marketing efforts beginning in the last half of 1997. During August and September 1998, the Company offered extended credit terms to certain customers. See "Liquidity and Capital Resources."

Cost of goods sold increased to \$6.0 million for the three months ended September 30, 1998 from \$3.6 million for the comparable period of 1997, and increased as a percentage of net sales to 26.1% from 25.3%, respectively, primarily due to lower average selling prices during the three months ended September 30, 1998 resulting primarily from the sale of the Company's inventory of "demo" clubs, and an increase of sales to retailers compared to sales to direct consumers.

Operating expenses are composed primarily of selling and royalty expenses, general and administrative expenses, and to a lesser extent, research and development expenses. Selling and royalty expenses increased to \$7.3 million for the three months ended September 30, 1998 from \$5.6 million for the comparable period of 1997 as a result of hiring additional employees, incurring increased levels of services provided by independent contractors and increased marketing and advertising efforts. Selling and royalty expenses decreased as a percent of net sales to 31.7% from 39.1% respectively, primarily due to the economies of scale of providing advertising for a substantially higher volume of sales. General and administrative expenses, including provisions for bad debts, increased to \$3.0 million, or 13.1% as a percent of sales, for the three months ended September 30, 1998 from \$0.6 million, or 4.2% as a percent of sales, for the comparable period ended September 30, 1997, primarily due to the hiring of additional employees, use of additional outside services, higher occupancy costs and additional bad debt expense related to increased revenues. Research and development expenses for the three months ended September 30, 1998 increased to \$0.5 million from \$0.3 million for the same period in 1997, and increased as a percent of net sales to 2.0 % from 1.8 %, primarily due to increased salaries, consulting, and tooling expenses associated with the development of new products.

Operating income increased to \$6.2 million for the three months ended September 30, 1998 from \$4.2 million for the comparable period of 1997, and decreased as a percentage of net sales to 27.1% from 29.6%, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998

Net sales increased to \$81.3 million for the nine months ended September 30, 1998 from \$19.7 million for the comparable period of 1997, primarily due to the continued market acceptance of the Company's Tight Lies-Registered Trademark-line of fairway woods, and, to a lesser extent, the introduction of the Strong 2 Tour Brassie and the Strong 11, and a price increase effective January 1, 1998. Net sales of the Tight Lies-Registered Trademark- line of fairway woods increased to \$78.7 million for the nine months ended September 30, 1998 from \$18.0 million for the comparable period of 1997, and increased as a percentage of net sales to 96.8% from 91.4%, respectively. Sales of the Tight Lies-Registered Trademark- fairway woods increased subsequent to the Company's introduction of an infomercial marketing its original Tight Lies-Registered Trademark- fairway wood in the second quarter of 1997. Net sales of other product lines for the nine months ended September 30, 1998 increased to \$2.6 million from \$1.7 million for the comparable period of 1997, but decreased as a percentage of net sales to 3.2% from 8.6%, respectively. Net sales of the Company's products outside the U.S. increased to \$8.8 million for the nine months ended September 30, 1998 from \$0.5 million for the nine months ended September 30, 1997, and increased as a percentage of net sales to 10.8% from 2.5%, respectively. The increase in international sales was due to increased market acceptance of the Tight Lies-Registered Trademark- fairway woods and expanded international marketing efforts beginning in the last half of 1997. During August and September 1998, the Company offered extended credit terms to certain customers. See "Liquidity and Capital Resources."

Cost of goods sold increased to \$19.6 million for the nine months ended September 30, 1998 from \$5.7 million for the comparable period of 1997, but decreased as a percentage of net sales to 24.1% from 29.2%, respectively, primarily due to an increased percentage of net sales attributable to the higher margin Tight Lies-Registered Trademark- fairway woods and the inherent cost savings associated with buying components in large volumes and assembling them on a substantially increased scale. The decrease in cost of goods sold as a percentage of sales was partially offset by the effect of lower average selling prices during the three months ended September 30, 1998.

Operating expenses are composed primarily of selling and royalty expenses, general and administrative expenses, and to a lesser extent, research and development expenses. Selling and royalty expenses increased to \$24.7 million for the nine months ended September 30, 1998 from \$7.9 million for the comparable period in 1997 as a result of hiring additional employees, incurring increased levels of services provided by independent contractors and increased marketing and advertising efforts. Selling and royalty expenses decreased as a percent of net sales to 30.4% from 39.9%, respectively, primarily due to the economies of scale of providing advertising for a substantially higher volume of sales. General and administrative expenses, including provisions for bad debts, increased to \$10.0 million, or 12.3% as a percent of sales, for the nine months ended September 30, 1998 from \$1.5 million, or 7.6% as a percent of sales, for the comparable period ended September 30, 1997, primarily due to the hiring of additional employees, use of additional outside services, higher occupancy costs and additional bad debt expense related to increased revenues. Research and development expenses for the nine months ended September 30, 1998 increased to \$1.1 million from \$0.3 million for the comparable period in 1997, primarily due to outside consulting services and increased salaries in connection with new product developments.

Operating income increased to \$25.9 million for the nine months ended September 30, 1998 from \$4.3 million for the comparable period of 1997, and increased as a percentage of net sales to 31.8% from 21.7% respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to \$29.2 million at September 30, 1998 from \$2.0 million at December 31, 1997, primarily as a result of \$5.1 million provided by cash flows from operations and \$60.3 million provided from financing activities, less \$38.2 million used for investing activities. The increase in cash flows provided by operations was primarily a result of increased net income. Primary uses of operating cash flows were increases in trade receivables and inventory of \$6.0 million and \$6.4 million, respectively, for the nine months ended September 30, 1998. The increases in receivables and inventory are primarily the result of continued sales growth.

During August and September 1998, the Company offered extended credit terms (i.e. due dates in excess of 30 days) to certain customers in order to match terms being offered by certain competitors. The extensions of these terms may have a negative impact on results of operations and financial position during the fourth quarter of 1998 as certain merchants may have accelerated orders as a result of the terms offered. The Company does not expect to offer extended credit terms in the fourth quarter of 1998.

Cash used in investing activities of \$38.2 million for the nine months ended September 30, 1998, is primarily related to purchases of marketable securities, computer equipment and software, telephone systems, and furniture and fixtures. The Company anticipates making capital expenditures in the ordinary course of business of approximately \$2.0 million in the balance of 1998, which includes implementing a customer management information system and an enterprise resource planning system. Cash provided by financing activities of \$60.3 million was primarily a result of net proceeds of the initial public offering of \$58.8 million.

Working capital totaled \$57.4 million at September 30, 1998 compared to \$6.9 million at December 31, 1997.

The Company has a \$10.0 million revolving credit facility, which expires on December 31, 1998. At September 30, 1998, the Company had no outstanding borrowings under this facility. Borrowings under the Company's revolving credit facility agreement are at interest rates based on the lending bank's general refinance rate of interest or certain LIBOR rates of interest. Obligations under the revolving credit facility loan agreement are collateralized by substantially all of the accounts receivable, inventory and equipment of the Company. During the first quarter of 1998, the Company borrowed approximately \$1.1 million in the form of a note payable to the Company's founder, Chief Executive Officer and President to be used for working capital purposes. The remaining principal amount of the note (approximately \$535,000 at September 30, 1998) is payable in two installments on December 15, 1998 and April 14, 1999 at an interest rate of 5.39%.

The Company is not aware of any event or trend which would potentially affect its liquidity. In the event such a trend would develop, the Company believes that the cash flow from operations and the net proceeds of the Offering (approximately \$58.8 million) would be sufficient to meet operating needs and capital expenditures for at least the next 12 months.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Golf generally is regarded as a warm weather sport and sales of golf equipment historically have been strongest during the second and third quarters, with the weakest sales occurring during the fourth quarter. In addition, sales of golf clubs are dependent on discretionary consumer spending, which may be affected by general economic conditions. A decrease in consumer spending generally could result in decreased spending on golf equipment, which could have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Company's future results of operations could be affected by a number of other factors, such as unseasonal weather patterns; demand for and market acceptance of the Company's existing and future products; new product introductions by the Company's competitors; competitive pressures resulting in lower than expected average selling prices; and the volume of orders that are received and that can be fulfilled in a quarter. Any one or more of these factors could result in the Company failing to achieve its expectations as to future sales or net income.

YEAR 2000 READINESS DISCLOSURE

The Year 2000 will have a broad impact on the business environment in which the Company operates due to the possibility that many computerized systems across all industries will be unable to process information containing the dates beginning in the Year 2000. The Company relies on its internal information technology systems in operating and monitoring many significant aspects of its business, including financial systems, customer services, infrastructure and network and telecommunications equipment. The Company also relies directly and indirectly on the systems of external business enterprises such as suppliers, customers, creditors, financial organizations and domestic and international governments. The Company has established an enterprise-wide program to prepare its computer systems and applications for the Year 2000 and is utilizing both internal and external resources to identify, correct and test the systems for Year 2000 compliance. The Company's legacy information system, as well as the information system currently being implemented, are certified as Year 2000 compliant. The Company has substantially completed an inventory of all information technology and non-information technology equipment as of September 30, 1998 and anticipates that the majority of its remediation plan will be completed by March 31, 1999. The Company expects that all systems critical to the conduct of the Company's operations will be Year 2000 compliant prior to the end of the 1999 calendar year.

The nature of the Company's business is such that the business risks associated with the Year 2000 can be reduced by closely assessing the vendors supplying the components used in assembling the Company's products. Because third party failures could have a material impact on the Company's ability to conduct business, questionnaires have been sent to the Company's significant vendors to obtain reasonable assurance that plans are being developed to address the Year 2000 issue. The returned questionnaires are currently being assessed by the Company, and are being categorized based upon readiness for the Year 2000 issues and prioritized in order of significance to the business of the Company. To the extent that vendors do not provide the Company with satisfactory evidence of their readiness to handle Year 2000 issues, contingency plans will be developed.

The Company does not believe the costs related to the Year 2000 compliance project will be material to its financial position or results of operations. However, the cost of the project and the date on which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans, and other factors. Unanticipated failures by critical vendors, as well as failure by the Company to execute its own remediation efforts, could have a material adverse effect on the cost of the project, its completion date, and the Company's results of operations and financial position. As a result, there can be no assurance that these forward-looking estimates will be achieved and the actual cost and vendor compliance could differ materially from those plans, resulting in material financial risk.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains "forward-looking statements" made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "expect" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, product development; product introductions; market demand and acceptance of products; the impact of changing economic conditions; business conditions in the golf industry; reliance on third parties including suppliers; the impact of market peers and their products; the actions of competitors, including pricing; risks concerning future technology; and one time events and other factors detailed in the Company's prospectus and other Securities and Exchange Commission filings. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein. The Company does not intend to update these forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to certain legal actions arising in the ordinary course of business. Based upon information presently available to the Company, management believes that the outcome of all matters currently pending will not have a material adverse effect on the Company's results of operations or financial position.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Use of Proceeds.

(1) On July 9, 1998 the Securities and Exchange Commission declared effective the Company's Registration Statement on Form S-1 (File No. 333-51715) and related Registration Statement on Form S-1 (333-58917) filed pursuant to Rule 462(b). Pursuant to the offering made thereby, the Company derived \$58,828,000 in net proceeds which, pending final application thereof, have been invested primarily in interest bearing marketable securities. Information concerning the Company's Use of Proceeds is set forth in its Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and will be updated as necessary.

ITEM 6(a). EXHIBITS

See exhibit index at page 16.

ITEM 6(b). REPORTS ON FORM 8-K

None

SIGNATURES:

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADAMS GOLF, INC.

Date: November 12, 1998

By: _____

B. H. (Barney) Adams, Chairman of the Board,
Chief Executive Officer and President

Date: November 12, 1998

By: _____

Darl P. Hatfield,
Senior Vice President - Finance and
Administration and Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description	Location
Exhibit 3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Form S-1 (Exhibit 3.1)
Exhibit 3.2	Amended and Restated By-laws	Incorporated by reference to Form S-1 (Exhibit 3.2)
Exhibit 4.1	1998 Stock Incentive Plan of the Company dated February 26, 1998	Incorporated by reference to Form S-1 (Exhibit 4.1)
Exhibit 4.2	1996 Stock Option Plan dated April 10, 1998	Incorporated by reference to Form S-1 (Exhibit 4.2)
Exhibit 4.3	Registration Rights Agreement dated April 30, 1998, among the Company and certain stockholders of the Company	Incorporated by reference to Form S-1 (Exhibit 4.3)
Exhibit 4.4	Adams Golf, Ltd. 401(k) Retirement Plan	Incorporated by reference to Form S-1 (Exhibit 4.4)
Exhibit 10.1	Agreement between the Registrant and Nick Faldo, dated April 22, 1998	Incorporated by reference to Form S-1 (Exhibit 10.1)
Exhibit 10.2	Revolving credit agreement dated February 27, 1998, between Adams Golf Direct Response, Ltd., Adams Golf, Ltd. And NationsBank of Texas N.A.	Incorporated by reference to Form S-1 (Exhibit 10.2)
Exhibit 10.3	Commercial lease agreement dated December 5, 1997, between Jackson-Shaw Technology Center II, Ltd. and the Company	Incorporated by reference to Form S-1 (Exhibit 10.3)
Exhibit 10.4	Commercial lease agreement dated April 6, 1998, between Jackson-Shaw Technology Center II, Ltd. and the Company	Incorporated by reference to Form S-1 (Exhibit 10.4)
Exhibit 10.5	Letter agreement dated April 13, 1998, between the Company and Darl P. Hatfield	Incorporated by reference to Form S-1 (Exhibit 10.5)
Exhibit 11.1	Computation of Per Share Earnings	Included in this filing
Exhibit 27.1	Financial Data Schedule	Included in this filing

EARNINGS PER SHARE - EXHIBIT 11.1
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

(UNAUDITED)

BASIC INCOME PER SHARE:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1997	1998
Net income	\$ 3,144	\$ 4,346	\$ 3,185	\$ 16,646
Weighted average shares outstanding	12,156,878	22,695,478	11,968,472	19,714,997
Income per share	\$ 0.26	\$ 0.19	\$ 0.27	\$ 0.84

DILUTED INCOME PER SHARE:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1997	1998
Net income	\$ 3,144	\$ 4,346	\$ 3,185	\$ 16,646
Weighted average shares outstanding	12,156,878	22,695,478	11,968,472	19,714,997
Effect of dilutive shares-stock options	-	53,045	-	296,803
Total weighted average dilutive shares	12,156,878	22,748,523	11,968,472	20,011,799
Income per common share	\$ 0.26	\$ 0.19	\$ 0.27	\$ 0.83

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR ADAMS GOLF, INC. AND ITS SUBSIDIARIES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD END	SEP 30 1998
CASH	29,196
SECURITIES	8,120
RECEIVABLES	14,343
ALLOWANCES	1,444
INVENTORY	10,879
CURRENT ASSETS	65,373
PP&E	4,528
DEPRECIATION	1,004
TOTAL ASSETS	106,663
CURRENT LIABILITIES	7,973
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	23
OTHER SE	95,485
TOTAL LIABILITY AND EQUITY	106,663
SALES	81,315
TOTAL REVENUES	81,315
CGS	19,626
TOTAL COSTS	24,683
OTHER EXPENSES	9,938
LOSS PROVISION	1,214
INTEREST EXPENSE	58
INCOME PRETAX	26,394
INCOME TAX	9,748
INCOME CONTINUING	16,646
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	16,646
EPS PRIMARY	.84
EPS DILUTED	.83

End of Filing

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ADAMS GOLF INC

FORM 10-K (Annual Report)

Filed 3/29/1999 For Period Ending 12/31/1998

Address	2801 EAST PLANO PARKWAY PLANO, Texas 75074
Telephone	972-673-9000
CIK	0001059763
Industry	Recreational Products
Sector	Consumer Cyclical
Fiscal Year	12/31

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1998

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number: 0-24583

ADAMS GOLF, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

75-2320087
(I.R.S. Employer Identification No.)

300 Delaware Avenue, Suite 572, Wilmington, Delaware
(Address of principal executive offices)

19801
(Zip Code)

(302) 427-5892
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Common Stock \$.001 Par Value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

At March 15, 1999, the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was \$38,941,431 based on the closing sales price of \$3 11/16 per share of the Registrant's Common Stock on the Nasdaq Stock Market's National Market.

The number of outstanding shares of the Registrant's Common Stock, par value \$.001 per share, was 22,479,282 on March 15, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 5, 1999, which proxy statement was filed with the Securities and Exchange Commission on April 7, 1999.

ITEM 1. BUSINESS**GENERAL**

Adams Golf, Inc. (the "Company" or "Adams Golf") designs, manufactures and markets premium quality, technologically innovative golf clubs. Adams Golf's primary products include the Tight Lies line of fairway woods, SC Series Titanium drivers, Assault-VMI Irons, and the Faldo Series wedges. The Company was incorporated in Texas in 1987 and reincorporated in Delaware in 1990. The Company completed an internal reorganization in 1997 and now conducts its operations through several direct and indirect wholly owned subsidiaries.

SEGMENTS AND PRODUCTS

The Company operates in a single segment (golf clubs) within the golf industry and within that segment offers more than one class of product (fairway woods, custom fitted clubs, drivers, wedges).

The Company currently offers the following products:

FAIRWAY WOODS - The Tight Lies line of fairway woods has an innovative upright trapezoidal or "upside down" head shape that incorporates a distinctive shallow face and a low center of gravity. The Company believes that this club is ideal for getting the ball airborne quickly and efficiently with optimum spin to maximize distance from virtually any lie on the course including the rough, hard pan, fairway bunkers and divots.

CUSTOM FITTED CLUBS - The Company's custom fitted clubs consist primarily of the Assault-VMI irons which are perimeter-weighted, cavity-backed, slightly offset irons incorporating the Company's patented variable moment of inertia ("VMI") design formula producing consistent swing feel across an entire set of clubs. The Company markets the Assault-VMI irons to professional and avid golfers exclusively through its network of over 100 certified custom fitting accounts. The Company believes that its custom fitting activities provide an in-depth understanding of golf club design and credibility in the golf industry.

DRIVERS - In January 1999, the Company introduced the SC Series Titanium drivers which have been designed to achieve a specific ball flight objective: longer and straighter tee shots resulting from reduced side spin and increased forward momentum. These qualities are achieved through a complex patented asymmetrical bulge design which incorporates precisely controlled relationships between the curvature of the face and the center of gravity.

WEDGES - In January 1999, the Company also introduced the Faldo Series wedges featuring a classic style with a unique asymmetric sole designed to deliver three different wedge shots - pitch, sand, and open-face finesse from a single club. Utilizing input from Nick Faldo, a professional golfer, regarding his own wedge play, the sole of the Faldo Series wedges have been designed to provide maximum playability from a variety of lies, giving golfers the confidence to execute even the toughest wedge shots.

The following table sets forth the contribution to net sales attributable to the product groups for the years indicated. Because the SC Series Titanium drivers and the Faldo Series wedges were not introduced by the Company until fiscal 1999, these product groups are not referenced in the table. Historical percentages may not be indicative of the Company's future product mix.

PERCENTAGE OF NET SALES BY PRODUCT GROUP

	1996	1997	1998
	----	----	----
Fairway Woods	47.2%	94.3%	96.5%
Custom Fitted Clubs	52.8%	5.7%	3.5%
	-----	-----	-----
Total	100.0%	100.0%	100.0%
	=====	=====	=====

The Company supports each of its products with a two year warranty. The warranty provides for repair or replacement of the golf club, except in the case of abuse. The Company has not experienced material amounts of warranty claims with respect to its golf clubs.

DESIGN AND DEVELOPMENT

The Company's design and development team is responsible for developing, testing and introducing new technologies and product designs. This team is currently led by Barney Adams, the founder of the Company and inventor of the Tight Lies fairway wood; Richard H. Murtland, Vice President-Research and Development; Adams Golf's in-house design development team, Nick Faldo and independent consultants, Robert R. Bush and Dr. Michael M. Carroll. Mr. Bush has over 30 years of experience in golf club development, most notably as Director of Technical Services for True Temper Sports, a leading shaft manufacturer, where from 1966 to 1993, he was responsible for testing all golf club shafts. Mr. Bush was instrumental in the development of "Iron Byron," the industry standard for the mechanical testing of golf clubs and balls. Mr. Bush is currently a member of the Technical Advisory Panel for GOLF DIGEST. Dr. Michael M. Carroll is Dean of the George R. Brown School of Engineering at Rice University in Houston, Texas. Dr. Carroll holds doctorate degrees in both physics and mathematics and is an avid golfer. Dr. Carroll has worked with the Company's design and development team since April 1, 1998 and is responsible for the scientific analysis of each new product under development by the Company.

The design and development team engages in a five-step process to create new products.

CONCEPT DEVELOPMENT - During concept development, Adams Golf's design and development team identifies specific desirable ball flight objectives. In addition, the Company considers new ideas from professional golfers, inventors, distributors and others. The Company expects that Nick Faldo will continue to play a significant role in future concept development.

DESIGN SPECIFICATIONS - The Company's product design and development team determines design specifications for the club, including shaft length, flex and weight, head design, loft and overall club weight. Throughout the design specifications process, the Company refers to and incorporates the golf equipment standards developed by the USGA. Although the standards set by the USGA only apply to competitive events sanctioned by that organization, the Company believes it is critical for new clubs to comply with these standards. At this time, the product design and development team also determines the optimal materials to use in the club. The Company will not use higher cost materials, such as titanium or other alloys, unless such expensive materials provide meaningful performance benefits. This stage of product development typically takes 6 to 8 weeks after a concept has been clearly identified.

PATENT REVIEW - The Company considers patent protection for its technologies and product designs to be an important part of its development strategy. The Company and its patent attorneys conduct a search of prior art and existing products to determine whether a new product idea may be covered by an existing patent. Patent review, depending upon the complexity and novelty of the design involved, generally requires between 3 to 18 months to complete, however, this stage of product development typically occurs in conjunction with one or more of the other steps.

PRODUCT DESIGN AND ENGINEERING REVIEW - If a product concept continues past the patent review stage, the Company translates design parameters into working designs. When appropriate, these designs are developed using computer aided design software and modeled using in-house rapid prototyping systems. Once modeled the prototype is subjected to rigorous engineering review to validate the effectiveness of the technology or design. The Company estimates that it takes between 4 to 6 months to successfully complete product design and engineering review.

TESTING - Once a specific design has been decided upon, the Company creates and tests one or more prototypes. The Company has a product testing facility at the Hank Haney Golf Ranch in McKinney, Texas and utilizes an independent mechanical test facility in Fort Worth, Texas for comparative performance testing. In addition, prototypes are also tested for performance and player preferences by Nick Faldo. As part of the testing process, the Company records, analyzes and interprets data associated with each prototype including ball flight, distance, spin and accuracy. Using feedback from these tests, the Company modifies its designs to achieve its performance objective. Additionally, the Company applies for official USGA approval of the resulting club at this time. Upon approval of a new product from the USGA, it becomes considered for commercial release. The Company believes that in order to properly field test a new product, it must expect between 4 to 6 months of additional development time.

The Company's research and development expenses were approximately \$51,000, \$557,000 and \$1,532,000 during 1996, 1997 and 1998, respectively.

MARKETS AND METHODS OF DISTRIBUTION

The Company sells its products through on- and off-course golf shops and selected sporting goods retailers, direct sales to consumers, international distributors and the Company's custom fitting accounts.

SALES TO RETAILERS - The Company sells a majority of its products to selected retailers. To maintain its high quality reputation and generate retailer loyalty, the Company currently does not sell its products through price sensitive general discount warehouses, department stores or membership clubs. The Company believes its selective retail distribution strategy helps its retailers maintain profitable margins and maximize sales of the Company's products. For the year ended December 31, 1998, sales to retailers accounted for approximately 73% of the Company's total sales.

Despite the Company's efforts to limit its distribution to selected retailers, Adams Golf products have been found in a certain membership warehouse club, which the Company believes has obtained the products through the use of unauthorized distribution channels. Adams Golf has taken steps to limit this unauthorized distribution through the serialization of all Adams Golf club heads but does not believe the gray marketing of its products can be totally eliminated.

Adams Golf maintains an inside sales department that at March 15, 1999 consisted of 23 employees who are in regular contact with the Company's retail accounts (over 7,000 retailers). These sales representatives are supported by 18 field-based regional account coordinators who maintain personal contact with the Company's retailers nationwide. The Company generally has been successful in delivering product to its retailers within one week of a placed order. The Company believes its prompt delivery of products enables its retail accounts to maintain smaller quantities of inventory than may be required with other golf equipment manufacturers.

CUSTOMER SUPPORT AND DIRECT SALES - Adams Golf believes that superior customer service can significantly enhance its marketing efforts. Accordingly, the Company maintains an in-house customer call center whose representatives provide technical assistance to its customers and field calls resulting from the Company's direct response advertising. The Company also outsources a portion of its call center activities. The Company provides its staff with computerized access to its retailer database enabling call center representatives to guide consumers to their nearest Adams Golf retailer.

INTERNATIONAL SALES - International sales are made in 41 countries (primarily Japan, Canada and the United Kingdom) through approximately 34 independent distributors. The international distributors sell to retailers for end sale to the consumer. International sales have increased from \$0.6 million for 1996, \$0.9 million for 1997, to \$11.0 million for 1998.

CUSTOM FITTING SALES - The Company employs six sales representatives who manage the Company's custom fitting sales and support division and administer its custom fitting training program for golf professionals. The Company's custom fitting training program has received PGA certification and provides continuing education credits for PGA Member Professionals. Since 1992, the Company has certified in excess of 300 golf professionals to custom fit its Assault-VMI irons, which are sold exclusively through its over 100 custom fitting accounts. Custom fitters measure data relating to swing and ball flight characteristics. Based on the interpretation of the data, a set of clubs is manufactured that is specifically tailored to that golfer.

MARKETING

The goals of the Company's marketing efforts are to build its brand identity and drive sales through its retail distribution channel. To accomplish these goals, Adams Golf utilizes direct response and traditional image-based advertising, engages in promotional activities and capitalizes on its relationship with Nick Faldo and other well known golf personalities.

ADVERTISING - The Company uses a combination of direct response and traditional image-based advertising.

- **DIRECT RESPONSE ADVERTISING** - The Company intends to continue to build brand awareness and stimulate product demand through its direct response advertising, which includes a variety of mediums including television, radio, print and direct mail. Direct response advertising, in which consumers may order products directly from the Company by calling a toll-free telephone number, provides a cost-effective vehicle enabling the Company to communicate a compelling product story and build brand recognition. The Company's direct response advertising serves to introduce the Company's products to consumers, many of whom will subsequently purchase the Company's clubs from retailers. During early 1998, the Company continued to air the original Tight Lies 30-minute infomercial that was introduced in early 1997. In October 1998, the Company began to air a refreshed version of the original Tight Lies infomercial routinely running it on The Golf Channel, regional sports stations, national networks and local, market-specific broadcast stations. In addition, the Company continues to utilize 30- and 60-second direct response television commercials as well as radio advertising. The Company advertises regularly in major golf and industry publications, general consumer magazines and local newspapers nationwide. These include GOLF DIGEST, GOLF MAGAZINE, SPORTS ILLUSTRATED, THE WALL STREET JOURNAL and USA TODAY. Finally, the Company engages in regularly scheduled direct mail advertising campaigns.

- **TRADITIONAL IMAGE-BASED ADVERTISING** - The Company's direct response sales revenue has enabled Adams Golf to broaden its advertising efforts to include traditional image-based advertising. This advertising includes a series of 30-second commercials which run during major golf tournaments and golf related programs; newspaper, magazine and radio ad campaigns; sponsorship of selected golf tournaments; exclusive sponsorship of The Golf Channel's weekly instructional program, "LIVING ROOM LESSONS", and a recently updated and professionally redesigned web site located at www.adamsgolf.com.

PROMOTIONAL ACTIVITIES - The Company engages in a variety of promotional activities to sell and market its products. Such activities include (i) consumer sweepstakes such as the Company's "Ramble in the Bramble," where the winner received an all expense paid, luxury tour for two to Scotland's most legendary golf courses; (ii) promotional giveaways with certain purchases, including items such as instructional videos, audio tapes, and golf bags; and (iii) promotional campaigns like the "90-Day Challenge," in which the Company advertises its 90-day return policy.

RELATIONSHIP WITH NICK FALDO AND OTHERS - In May 1998, the Company formed a lifetime relationship with Nick Faldo, an internationally recognized professional golfer and winner of numerous U.S. and international championships, including three Masters (1989, 1990 and 1996) and three British Opens (1987, 1990 and 1992). Mr. Faldo led the Official World Golf Ranking for 81 weeks during 1993 and 1994. Mr. Faldo also has made the most Ryder Cup appearances in the history of golf. The Company expects Nick Faldo to continue to be actively and directly involved in the design, testing and development of new technologies and products. Mr. Faldo is noted for his precise play as a golfer and his reputation as a perfectionist. The Company believes that by aligning itself with Mr. Faldo, it can further promote the Adams Golf brand, while at the same time demonstrating the Company's ability to deliver golf clubs that satisfy the specific and demanding requirements of tour professionals.

In addition, the Company has also obtained endorsements from Hank Haney. Mr. Haney was named the 1993 PGA Teacher of the Year and is a five-time recipient of the Northern Texas Section PGA Teacher of the Year Award. Mr. Haney has instructed over 100 touring professionals from the PGA, LPGA, European, Japanese and Asian Tours along with several top rated junior golfers. Mr. Haney is a member of the advisory staff for GOLF DIGEST.

RAW MATERIALS, MANUFACTURING AND ASSEMBLY

The Company manages all stages of manufacturing, from sourcing to assembly, in order to maintain a high level of product quality and consistency. The Company establishes product specifications, selects the materials used to produce the components and tests the specifications of all components received by the Company. In addition, the Company has redundant sources of supply for each of the component parts used in the manufacture of its fairway woods and irons and has established a quality assurance program at those manufacturing facilities located in Taiwan and China that are collectively responsible for producing substantially all of the Company's performance fairway and iron club heads. With regard to the Company's SC Series Titanium drivers, the Company utilizes one source of supply in Australia for the club head and redundant sources of supply for the remaining component parts. Upon arrival at the Company's manufacturing facilities in Plano, Texas, each component used in the Company's clubs is again checked to ensure consistency with strict design specifications. Components are then sorted to identify variations in characteristics, such as head weight and shaft flexibility, that, although within the specified range, may affect club performance. Golf clubs are then built by the Company's manufacturing personnel using the appropriate component parts and the Company's patented VMI technology. The Company could in the future experience shortages of components or periods of increased price pressures, which could have a material adverse effect on the Company's business, operating results or financial condition. In addition, failure to obtain adequate supplies or fulfill customer orders on a timely basis could have a material adverse effect on the Company's business, results of operations, financial position or liquidity.

PATENTS

The Company's ability to compete effectively in the golf club market will depend, in large part, on the ability of the Company to maintain the proprietary nature of its technologies and products. The Company currently holds seven U.S. patents relating to certain of its products and proprietary technologies and has three patent applications pending. Assuming timely payment of maintenance fees, if any, the Company expects that the seven currently issued patents will expire on various dates between 2009 and 2013. The Company has been awarded patents with respect to the design of the Tight Lies fairway wood and the VMI design formula. There can be no assurance, however, as to the degree of protection afforded by these or any other patents held by the Company or as to the likelihood that patents will be issued from the pending patent applications. Moreover, these patents may have limited commercial value or may lack sufficient breadth to adequately protect the aspects of the Company's products to which the patents relate. The Company does not hold any foreign patents and no foreign patent applications are pending. The U.S. patents held by the Company do not preclude competitors from developing or marketing products similar to the Company's products in international markets.

There can be no assurance that competitors, many of which have substantially greater resources than the Company and have made substantial investments in competing products, will not apply for and obtain patents that will prevent, limit or interfere with the Company's ability to make and sell its products. The Company is aware of numerous patents held by third parties that relate to products competitive to the Company's, including products competitive with the Tight Lies fairway woods. There is no assurance that these patents would not be used as a basis to challenge the validity of the Company's patent rights, to limit the scope of the Company's patent rights or to limit the Company's ability to obtain additional or broader patent rights. A successful challenge to the validity of the Company's patents may adversely affect the Company's competitive position. Moreover, there can be no assurance that such patent holders or other third parties will not claim infringement by the Company with respect to current and future products. Because U.S. patent applications are held and examined in secrecy, it is also possible that presently pending U.S. applications will eventually issue with claims that will be infringed by the Company's products or technologies. The defense and prosecution of patent suits is costly and time-consuming, even if the outcome is favorable. This is particularly true in foreign countries where the expenses associated with such proceedings can be prohibitive. An adverse outcome in the defense of a patent suit could subject the Company to significant liabilities to third parties, require the Company and others to cease selling products or require disputed rights to be licensed from third parties. Such licenses may not be available on satisfactory terms, or at all.

Despite the Company's efforts to protect its patent and other intellectual property rights, unauthorized parties have attempted and are expected to continue to attempt to copy all, or certain aspects of, the Company's products. Policing unauthorized use of the Company's intellectual property rights can be difficult and expensive, and while the Company takes appropriate action whenever it discovers any of its products or designs have been copied, knock-offs and counterfeit products are a persistent problem in the performance-oriented golf club industry. There can be no assurance that the Company's means of protecting its patent and other intellectual property rights will be adequate.

INDUSTRY SPECIFIC REQUIREMENTS

Due to industry sensitivity to consumer buying trends and available disposable income, the Company has in the past extended payment terms for specific retail customers. Issuance of these terms (i.e. greater than 30 days) are dependent on the Company's relationship with the customer and payment history. In addition to extended payments terms, the nature of the industry also requires that the Company carry a higher level of inventory due to the lead times associated with purchasing components overseas coupled with the seasonality of customer demand.

MAJOR CUSTOMERS

Currently, the Company does not have dependence on a single or small number of major customers for which the loss of one or all would have a material adverse effect on consolidated revenues.

SEASONALITY

Golf generally is regarded as a warm weather sport and sales of golf equipment historically have been strongest during the second and third quarters, with the weakest sales occurring during the fourth quarter. In addition, sales of golf clubs are dependent on discretionary consumer spending, which may be affected by general economic conditions. A decrease in consumer spending generally could result in decreased spending on golf equipment, which could have a material adverse effect on the Company's business, operating results and financial condition. In addition, the Company's future results of operations could be affected by a number of other factors, such as unseasonal weather patterns; demand for and market acceptance of the Company's existing and future products; new product introductions by the Company's competitors; competitive pressures resulting in lower than expected average selling prices; and the volume of orders that are received and that can be fulfilled in a quarter. Any one or more of these factors could result in the Company failing to achieve its expectations as to future sales or net income.

Because most operating expenses are relatively fixed in the short term, the Company may be unable to adjust spending sufficiently in a timely manner to compensate for any unexpected sales shortfall, which could materially adversely affect quarterly results of operations. If technological advances by competitors or other competitive factors require the Company to invest significantly greater resources than anticipated in research and development or sales and marketing efforts, the Company's business, operating results or financial condition could be materially adversely affected. Accordingly, the Company believes that period-to-period comparisons of its results of operations should not be relied upon as an indication of future performance. In addition, the results of any quarter are not indicative of results to be expected for a full fiscal year. As a result of fluctuating operating results or other factors discussed above and below, in certain future quarters the Company's results of operations may be below the expectations of public market analysts or investors. In such event, the market price of the Company's Common Stock would be materially adversely affected.

BACKLOG

The amount of the Company's backlog orders at any particular time is affected by a number of factors, including seasonality and scheduling of the manufacturing and shipment of products. At March 15, 1999, the Company did not have a significant level of orders on backlog and does not anticipate that a significant level of orders will not be filled within the current fiscal year. In addition, the Company believes that the amount of its backlog is not an appropriate indicator of levels of future production.

COMPETITION

The Company competes with a number of established golf club manufacturers, some of which have greater financial and other resources. The Company's competitors include Callaway Golf Company, Adidas-Salomon AG (Taylor Made), Fortune Brands, Inc. (Titleist and Cobra) and Orlimar Golf Company, among others. The Company competes primarily on the basis of performance, brand name recognition, quality and price. The Company believes that its ability to market its products through multiple distribution channels, including on- and off-course golf shops, selected sporting goods retailers and through direct response advertising, is important to its ability to compete.

The golf club industry is generally characterized by rapid and widespread imitation of popular technologies, designs and product concepts. Due to the success of the Tight Lies fairway woods, the Company has experienced several competitors introducing similar products. The buying decisions of many purchasers of golf clubs are often the result of highly subjective preferences, which can be influenced by many factors, including, among others, advertising media, promotions and product endorsements. The Company may face competition from manufacturers introducing other new or innovative products or successfully promoting golf clubs that achieve market acceptance. The failure to compete successfully in the future could result in a material deterioration of customer loyalty and the Company's image and could have a material adverse effect on the Company's business, results of operations, financial position or liquidity.

FOREIGN AND DOMESTIC OPERATIONS

For the years ended December 31, 1996, 1997 and 1998 approximately \$2,900,000, \$35,808,000 and \$73,580,000, respectively, of the Company's net sales were derived from operations within the United States. In addition, no one customer contributed greater than 10% of the Company's consolidated net revenues in any one of the years identified.

For the years ended December 31, 1996, 1997 and 1998 approximately \$600,000, \$882,000 and \$11,031,000, respectively, of the Company's net sales were derived from operations outside the United States. In addition, no one customer contributed greater than 10% of the Company's consolidated net revenues in any one of the years identified.

EMPLOYEES

At March 15, 1999, the Company had 248 full-time employees, including 86 engaged in manufacturing and assembly, 14 in research and development and quality control, 88 in sales support and 60 in management and administration. Adams Golf employees are not unionized. Management believes that its relations with its employees are good.

ITEM 2. PROPERTIES

The Company's administrative offices and manufacturing facilities currently occupy approximately 98,000 square feet of space in Plano, Texas. This facility is leased by the Company pursuant to a lease agreement expiring in 2004 and may be extended for an additional five years. The Company maintains the right to terminate the lease if it moves to a larger facility owned by the current lessor. The Company believes that these facilities will be sufficient through at least the end of 1999.

ITEM 3. LEGAL PROCEEDINGS

Adams Golf is a party to certain lawsuits and administrative proceedings arising in the ordinary course of its business. Adams Golf evaluates such lawsuits and proceedings on a case-by-case basis, and its policy is to vigorously contest any such claims which it believes are without merit. Based upon information presently available to the Company, management believes that the ultimate resolution of such pending matters will not materially adversely affect the Company's business, financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed and traded on the Nasdaq Stock Market's National Market under the symbol "ADGO." The prices in the table below represent, for the periods indicated, the quarterly high and low sales price for Adams Golf, Inc. common stock as reported by The Nasdaq Stock Market. All price quotations represent prices between dealers, without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

Fiscal year ended December 31, 1998	HIGH	LOW
	----	----
Third Quarter (beginning July 10, 1998)	\$18 7/8	\$3 7/8
Fourth Quarter	5 3/16	3

On March 15, 1999, the last reported sale price of the common stock on The Nasdaq Stock Market's National Market was \$3 11/16 per share.

At March 15, 1999, Adams Golf, Inc. had approximately 7,000 stockholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

No dividends have been declared or paid relating to the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from the Company's consolidated financial statements for the years ended December 31, 1995, 1996, 1997 and 1998, respectively. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the consolidated financial statements and related notes and other financial information included elsewhere in this document.

	YEAR ENDED DECEMBER 31,			
	1995	1996	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Consolidated Statements of Operations Data(1):				
Net sales.....	\$1,125	\$ 3,522	\$36,690	\$84,611
Operating income (loss).....	(244)	9	(3,969)	18,500
Net income (loss).....	\$ (243)	\$ 13	\$ (4,654)	\$12,510
	=====	=====	=====	=====
Income (loss) per common share(2):				
Basic.....	\$(0.05)	\$ -	\$ (0.37)	\$ 0.61
	=====	=====	=====	=====
Diluted.....	\$(0.05)	\$ -	\$ (0.37)	\$ 0.61
	=====	=====	=====	=====
Weighted average common shares(2):				
Basic.....	4,423	11,238	12,519	20,435
	=====	=====	=====	=====
Diluted.....	4,423	11,238	12,519	20,677
	=====	=====	=====	=====
	DECEMBER 31,			
	1995	1996	1997	1998
	(IN THOUSANDS)			
Consolidated Balance Sheet Data(1):				
Total assets.....	\$ 658	\$2,559	\$17,360	\$96,906
Total debt (including current maturities)...	-	230	-	175
Stockholders' equity.....	615	1,978	8,325	88,190

(1) This table excludes summary financial information for the fiscal year ended December 31, 1994 because operations in that year were not comparable in size or scope to current operations.

(2) See Note 1 of Notes to Consolidated Financial Statements for information concerning the calculation of income (loss) per common share and weighted average common shares outstanding.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company, which participates in the highly competitive golf industry, designs, manufactures, markets and distributes premium quality, technologically innovative golf clubs. Founded in 1987, the Company operated initially as a components supplier and contract manufacturer. Thereafter, the Company established its custom fitting operation, which currently services a network of over 100 certified custom fitting accounts. In the fall of 1995, the Company introduced the original Tight Lies fairway wood and, in December 1996, the Company extended the Tight Lies line to include the Tight Lies Strong 3, Strong 5 and Strong 7, with the Tight Lies Strong 9 being introduced in January 1998. Sales of the Tight Lies line of products increased significantly subsequent to the second quarter of 1997 when the Company launched an infomercial relating to the original Tight Lies fairway wood. To further enhance the Tight Lies line of products, the Company introduced the Strong 2 Tour Brassie and the Strong 11 in late August 1998. The Company's net sales are primarily derived from sales to on-and off-course golf shops and selected sporting goods retailers and, to a lesser extent, direct sales to consumers, international distributors and the Company's custom fitting accounts.

The Company believes that during the second half of 1998, the golf industry experienced declining sales. Despite the industry trend of declining sales, the Company has experienced significant positive sales growth over prior years. However, the Company's ability to continue to generate positive sales trends into 1999 is dependent upon the successful introduction of new products and the continued acceptance of its Tight Lies line of fairway woods. No assurances can be given that demand for the Company's current products or the introduction of new products will allow the Company to continue its trend of increasing sales, or to maintain historical levels of sales in the future. The Company introduced the SC Series Titanium drivers and the Faldo Series wedges in January 1999, and, accordingly, no sales for these products were recorded in the years ended December 31, 1996, 1997 and 1998.

The Company does not currently manufacture the components required to assemble its golf clubs, relying instead on various component suppliers. Fairway wood components are each available from multiple suppliers. Currently, certain components for the new SC Series Titanium drivers and the Faldo Series wedges are produced by a single supplier. Costs of the Company's current Tight Lies line of fairway woods, new SC Series Titanium drivers and Faldo Series wedges consist primarily of component parts, including the head, shaft and grip. To a lesser extent, the Company's cost of goods sold includes labor and occupancy costs in connection with the inspection, testing and assembly of component parts at its facility in Plano, Texas.

RESULTS OF OPERATIONS

The following table sets forth operating results expressed as a percentage of net sales for the periods indicated.

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	45.1	27.2	25.3
Gross profit	54.9	72.8	74.7
Operating expenses	54.6	83.6	52.8
Operating income (loss)	0.3	(10.8)	21.9
Interest income (expense), net	-	(0.2)	1.5
Other income (expense), net	0.1	(0.1)	(0.1)
Income (loss) before income taxes	0.4	(11.1)	23.3
Income tax expense	-	1.6	8.5
Net income (loss)	0.4%	(12.7)%	14.8%

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net sales increased to \$36.7 million for 1997 from \$3.5 million for 1996, primarily due to increased market acceptance of the Company's Tight Lies fairway woods. Net sales of the Tight Lies fairway woods increased to \$34.6 million for 1997, from \$1.7 million for 1996, and increased as a percentage of net sales to 94.3% from 47.2%, respectively. Net sales of other product lines increased to \$2.1 million for 1997 compared to \$1.8 million for 1996, but decreased as a percentage of net sales to 5.7% for 1997 from 52.8% for 1996.

Gross profit increased to \$26.7 million for 1997 from \$1.9 million for 1996, and increased as a percentage of net sales to 72.8% from 54.9%, respectively. Gross profit for 1997 was favorably affected by an increased percentage of sales attributable to the higher margin Tight Lies fairway woods and the inherent cost savings associated with buying components in large volumes and assembling them on a substantially increased scale.

The Company experienced an operating loss of \$4.0 million for 1997 as compared to operating income of \$9,000 for 1996. Total operating expenses increased to \$30.7 million for 1997 from \$1.9 million for 1996. Of the \$30.7 million of operating expenses for 1997, \$14.8 million, or 48.4% of expenses related to stock compensation and bonus awards to the Company's Chairman, Chief Executive Officer and President. See "Certain Transactions" and Note 13 of Notes to Consolidated Financial Statements. The expense recognized in 1996 in conjunction with these awards was \$0.2 million, or 11.1% of operating expenses. In 1997, the Company also incurred higher expenses for selling and royalties and provision for bad debts, in each case due principally to increased sales of the Tight Lies fairway woods. General and administrative expenses and research and development expenses also increased in 1997 due to the hiring of additional employees.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Net sales increased 131% to \$84.6 million for the year ended December 31, 1998 from \$36.7 million for 1997, primarily due to the continued market acceptance of the Company's Tight Lies line of fairway woods, and, to a lesser extent, the introduction of the Strong 2 Tour Brassie and the Strong 11 in late August 1998. Net sales for 1998 have been reduced by a \$4.3 million unconditional credit given to retailers during the fourth quarter in connection with the Company's new suggested retail pricing structure. The Company does not expect changes to its suggested retail pricing structure during 1999. Net sales of the Tight Lies line of fairway woods increased to \$81.6 million for the year ended December 31, 1998 from \$34.6 million for 1997, and increased as a percentage of net sales to 96.5% from 94.3%, respectively. Sales of the Tight Lies fairway woods increased subsequent to the Company's introduction of an infomercial marketing its original Tight Lies fairway wood in the second quarter of 1997. Net sales of other product lines for the year ended December 31, 1998 increased to \$3.0 million from \$2.1 million for 1997, but decreased as a percentage of net sales to 3.5% from 5.7%, respectively. Net sales of the Company's products outside the U.S. increased to \$11.0 million for the year ended December 31, 1998 from \$0.9 million for the year ended December 31, 1997, and increased as a percentage of net sales to 13.0% from 2.5%, respectively. The increase in international sales was due to increased market acceptance of the Tight Lies fairway woods and expanded international marketing efforts beginning in the last half of 1997.

Net sales for 1999 are expected to be positively impacted by the introductions of the SC Series Titanium drivers and the Faldo Series wedges. However, the Company believes that declining sales in the golf equipment industry and increased competition in the fairway wood segment will diminish the growth trend of sales experienced over the past two years.

Cost of goods sold increased to \$21.4 million for the year ended December 31, 1998 from \$10.0 million for 1997, and decreased as a percentage of net sales to 25.3% from 27.2%, respectively, primarily due to an increased percentage of net sales attributable to the higher margin Tight Lies fairway woods and the inherent cost savings associated with buying components in large volumes and assembling them on a substantially increased scale. Offsetting the above factors were lower average selling prices during the second half of 1998 resulting primarily from the sale of the Company's inventory of "demo" clubs, an increase of sales to retailers compared to sales to direct consumers and the \$4.3 million credit given to retailers. The introduction of the new product lines (i.e., SC Series Titanium drivers and the Faldo Series wedges) combined with the new suggested retail pricing structure for the Tight Lies fairway woods is expected to increase cost of sales as a percentage of net sales in future periods.

Operating expenses are composed primarily of selling and royalty expenses, general and administrative expenses, and to a lesser extent, research and development expenses. Selling and royalty expenses increased to \$31.2 million for the year ended December 31, 1998 from \$13.1 million for 1997 as a result of hiring additional employees, incurring increased levels of services provided by independent contractors and increased marketing and advertising efforts. Selling and royalty expenses increased as a percent of net sales for the year ended 1998 to 36.9% from 35.7%, respectively, primarily due to the increased advertising initiatives which included a revised infomercial, television commercials and print advertising. Selling and royalty expenses also include the costs associated with a golf bag giveaway promotion conducted during the fourth quarter of 1998. General and administrative expenses, including provisions for bad debts, increased to \$11.9 million, or 14.1% as a percent of sales, for the year ended December 31, 1998 from \$2.2 million, or 6.0% as a percent of net sales, excluding stock compensation and bonus awards for the year ended December 31, 1997, primarily due to the hiring of additional employees, use of additional outside services, higher occupancy costs and additional bad debt expense related to increased revenues. For the year ended December 31, 1997, the Company incurred \$14.8 million, or 40.5% as a percent of net sales, relating to stock compensation and bonus awards to the Company's Chairman and Chief Executive Officer. Research and development expenses for the year ended December 31, 1998 increased to \$1.5 million from \$0.6 million for 1997, and increased as a percent of net sales to 1.8% from 1.5%, primarily due to increased salaries, consulting, and tooling expenses associated with the development of new products.

Operating income increased to \$18.5 million for the year ended December 31, 1998 from a loss of \$4.0 million for 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to \$23.7 million at December 31, 1998 from \$2.0 million at December 31, 1997, primarily as a result of \$3.7 million provided by cash flows from operations and \$56.4 million provided from financing activities, offset by \$38.4 million used for investing activities. The increase in cash flows provided by operations was primarily a result of increased net income. Primary uses of operating cash flows were increases in inventory and income taxes receivable of approximately \$8.8 million and \$2.1 million, respectively, for the year ended December 31, 1998. The increase in inventory is primarily the result of declining sales in the third and fourth quarter of 1998.

Cash used in investing activities of \$38.4 million for the year ended December 31, 1998, is primarily related to purchases of marketable securities, computer equipment and software, telephone systems, and furniture and fixtures. Capital expenditures made in the ordinary course of business relating to the implementation of a customer management information system and enterprise resource planning system for the year ended December 31, 1998 approximated \$4.3 million. Cash provided by financing activities of \$56.4 million was primarily a result of net proceeds of the initial public offering of \$58.5 million.

Working capital totaled \$53.0 million at December 31, 1998 compared to \$6.9 million at December 31, 1997.

The Company has a \$10.0 million revolving credit facility, which expires on May 31, 2000. At December 31, 1998, the Company had no outstanding borrowings under its facility. Borrowings under the Company's revolving credit facility agreement are at interest rates based on the lending bank's general refinance rate of interest or certain LIBOR rates of interest. During the first quarter of 1998, the Company borrowed approximately \$1.1 million in the form of a note payable to the Company's Chairman and Chief Executive Officer to be used for working capital purposes. The remaining principal amount of the note (approximately \$175,000 at December 31, 1998) is payable on April 14, 1999 at an interest rate of 5.39%.